Docket:	:	A.08-01-004
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Kenneth L. Koss
DRA Project Mgr.	:	Victor Chan
	:	

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the RESULTS OF OPERATIONS OF Suburban Water Systems

Test Year 2009 and

Escalation Years 2010 and 2011

Application 08-01-004

For authority to increase water rates for water service

May 5, 2008

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MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this Report for Suburban Water Systems' ("SWS," "Suburban," or "the Company'), Application ("A.") 08-01-004, general rate case ("GRC") proceeding. Here, Suburban requests an order for authorization to increase rates charged for water service by $6,820,539 or 13.57% in 2009; by $1,698,004 or 2.97% in 2010; and by $1,250,644 or 2.12% in 2011. This Report presents DRA's analysis, findings, and recommendations for A.08-01-004.

As DRA's project coordinator in this review, Victor Chan is responsible for the overall coordination in the preparation of this Report. DRA's Report contains its witnesses' prepared qualifications and testimony.

Selina Shek is DRA's Legal Counsel for this proceeding.

EXECUTIVE SUMMARY

A. INTRODUCTION

On January 2, 2008, Suburban filed its general rate case Application 08-01-004 requesting authorization to increase rates charged for water service by $6,820,539 or 13.57% in 2009; by $1,698,004 or 2.97% in 2010; and by $1,250,644 or 2.12% in 2011. In this GRC, both DRA and SWS apply 10% as the return on equity and 8.65% as the return for rate base for Test year 2009, which are the same as those previously authorized by the Commission in D.06-08-017 and is what SWS currently uses in its current application. The cost of capital is subject to change pending the Commission's final decision on SWS' separate Cost of Capital application which it will file in May 2009.

DRA is also submitting concurrently a separate report regarding the cost allocation of SWS' parent company, Southwest Water Company Utility and its subsidiary, Utility Group.

B. SUMMARY

DRA submits this Report as its Opening Testimony in A.08-01-004. This Report represents DRA's analysis, findings, conclusions, and recommendations resulting from its review of SWS' general rate case application. DRA estimates an overall revenue requirement of $47,110,000 or an overall decrease $3,683,000 or 7.25% over present rates for SWS' ratepayers. Major adjustments reflected in DRA's Summary of Earnings are summarized in the sections below:

Summary of Earnings

Test Year 2009

DRA Present	SWS Present	DRA Recommended	SWS Requested
$50,793,000	$50,448,300	$47,110,000	$58,124,900

The following sections provide an overview of DRA's key recommendations in SWS' general rate case.

a. Chapter 2-Customer, Consumption, and Operating Revenue

DRA concurs with SWS that the average number of customers for Test Year 2009 is 75,530. DRA's total water supply estimate for the Test Year is 25,519,528 Ccf compared to SWS' 25,501,331 Ccf. At present rates and SWS' 2009 proposed rates, DRA's calculated operating revenues for the Test Year are $51,546,835 and $58,474,783 while SWS' are $51,201,795 and $58,124,899, respectively. The difference in Operating Revenues estimated by the parties is due to the differences in the total water sales used to calculate the respective revenues and revenues from the Service Line Maintenance Program (Account 614.1).

b. Chapter 3-Expenses (O&M, A&G)

DRA recommends $32,509,100 in Operating Expenses for Test Year 2009. SWS' requests $39,149,300. DRA's estimate is $6,640,200 lower than SWS' request. The difference is attributable to different methodologies used by DRA and SWS.

c. Chapter 4-Plant In Service

SWS requests capital improvements for estimated year 2008 in the amount of $10,320,000, $10,331,000 in Test Year 2009, and $10,328,000 in Test Year 2010. DRA recommends plant additions of $7,344,000 in 2008, $7,944,000 in Test Year 2009, and $5,225,000 in Test Year 2010. Differences in SWS and DRA

estimates are due to DRA's adjustments to SWS' requested capital budget. Additionally, SWS completed several capital projects in 2007, which were not previously reviewed by DRA or authorized by the Commission. DRA has also reviewed those un-authorized projects and made certain adjustments based on its review.

d. Chapter 5- Depreciation Expenses and Reserve

Differences in DRA and SWS' estimates are due to differences in SWS' requested plant additions and DRA's recommended plant additions for the Test Years. SWS requests $48,835,440 in Test Year 2009 and $50,228,064 in 2010, whereas DRA estimates $50,188,694 and $52,775,265 in Test Years 2009 and 2010 respectively.

e. Chapter 6-Rate Base

SWS' estimated weighted average rate base for 2009 is $94,106,587 and $100,277,397 for Test Year 2010. DRA recommends an average rate base of $85,263,643 Test Year 2009 and $87,874,355 in Test Year 2010. Differences in DRA and SWS' estimates are due to differences in Plant in Service at the beginning of the year 2007, plant additions for 2008, 2009, and 2010, depreciation reserve, and working cash.

f. Chapter 7-Taxes

DRA estimates higher income taxes for both State and Federal Income Taxes as shown in Tables 7-1. The difference between SWS' and DRA's estimates is due to different estimates in revenue requirement, expenses, rate base and other tax issues, such as Domestic Production Activities Deduction ("DPAD").

g. Chapter 8- Rate Design

SWS and DRA filed a Settlement Agreement on April 24, 2007 on Water Rate Adjustment Mechanism ("WRAM") & Conservation Rate Design issues

requesting the Commission approve a two-tier increasing block rate structure. DRA recommends that since the settlement has already been adopted by the Commission, SWS should design its rate in accordance to the conditions of the settlement agreement adopted in D.08-02-036.

h. Chapter 9- Audit Issues

DRA's audit demonstrates Suburban has accurately reflected the reimbursements Cooperating Respondents ("CRs") paid to SWS in the workpapers of this GRC. DRA also agrees with the forecasted CR reimbursements in this GRC's Test Years. For DPAD, DRA finds that SWS has failed to comply with Commission's prior GRC decision, D. 06-08-017 and recommends SWS to refund $952,907 as an one-time service surcredit. DRA also recommends SWS refund its ratepayers the imputed DPAD for calendar year 2008 as monthly service credits.

i. Chapter 10-Policy Issues

DRA's review of SWS' records show that very few customer complained against the Company from 2005 to 2007. When the Company received complaints, SWS promptly investigated the issues and resolved them. And according to the water quality records SWS provided, Suburban has been meeting the rules and regulations prescribed by the California Department of Public Health. Therefore, DRA concludes that SWS has been providing safe and reliable water since its last GRC.

j. Chapter 11-Escalation Years

For illustration purpose, DRA recommends a revenue requirement increase of $3,720,000 or 7.90% in Escalation Year 1 and $1,370,000 or 2.70% in Escalation Year 2. The actual increases will be determined when SWS files its advice letter for its attrition adjustments in 2010 and 2011.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	Victor Chan
1	Summary of Earnings	Victor Chan
2	Customer, Consumption, Operating Revenue	Victor Moon
3	Expenses	Eric Matsuoka
4	Plant in Service	Patricia Esule, Jenny Au, Brian Yu
5	Depreciated and Amortization Expenses	Patricia Esule
6	Rate base	Patricia Esule, Brian Yu
7	Taxes	Eric Matsuoka
8	Rate Design	Victor Moon
9	Audit Issues	Raymond Yi
10	Policy Issues	Victor Chan, Jenny Au
11	Escalation Years	Victor Chan
	Appendix- A (August 2007 Escalation Rate)	
	Appendix-B (Qualifications and Prepared Testimony)	All

CHAPTER 1: SUMMARY OF EARNINGS

A. INTRODUCTION

This chapter provides DRA's recommendations pertaining to A.08-01-004, SWS' general rate increase request for Test Year 2009 and Escalation Years 2010 and 2011.

B. SUMMARY OF RECOMMENDATIONS

The SWS Summary of Earnings shown in Table 1-1 at the end of this Chapter compares the results of operations for the Test Year 2009 including revenues, expenses, taxes and rate base.

C. DISCUSSION

The total revenues requested by SWS are as follow:

Year	Amount of Increase	Percent
Test Year 2009	$6,820,539	13.57%
Escalation 2010	$1,698,004	2.97%
Escalation 2011	$1,250,644	2.12%

SWS estimates that its proposed rates in the application will produce revenues providing the following returns for Test Year 2009:

Test Year	Return on Rate base	Return on Equity
2009	8.65%	10.0%

D. CONCLUSION

DRA recommends a revenue decrease for Test Year 2009 as follows (Escalation Years 2010 and 2011 are covered in Chapter 11):

Test Year	Amount of Decrease	Percent
2009	($3,683,000)	(7.25%)

D.06-08-017 authorized the last general rate increase for SWS, which resulted in a rate of return on rate base of 8.65% in 2006. Present rates used by DRA in this Report are the most recent authorized by advice letter W-250, effective July 1, 2007.

A comparison of DRA's and SWS' estimates for rate of return on rate base for the Test Year 2009 at the present rate is shown below:

	Rate of Return		
	Test year 2009		
	DRA	SWS	Diff
Present Rates	8.65%	8.65%	0.00%

TABLE 1-1

SUBURBAN WATER SYSTEMS

SUMMARY OF EARNINGS
Test Year 2009

Item	DRA Present (A)	Utility Present (B)	DRA Recommended (C)	Utility Requested (D)
		(Dollars in Thousands)		
Operating Revenues	50,793.0	50,448.3	47,110.0	58,124.9
Total Revenue	50,793.0	50,448.3	47,110.0	58,124.9
Expenses				
Operation & Maintenance	19,480.2	19,790.1	19,480.2	19,830.9
Payroll Expenses	6,049.7	7,824.9	6,049.7	7,824.9
Admininistrative and General	6,979.2	11,534.3	6,979.2	11,724.1
Depreciation Expense	4,975.6	5,108.6	4,975.6	5,108.6
Taxes Other Than Income	1,367.4	1,585.2	1,367.4	1,585.2
CCFT	831.3	222.6	505.6	816.6
FIT	1,665.6	741.6	376.5	3,093.3
Total Expenses	41,349.0	46,807.3	39,734.2	49,983.6
Net Income	9,444.0	3,641.0	7,375.8	8,141.3
Rate base	85,262.6	94,106.6	85,262.6	94,106.6
Rate of Return	11.08%	3.87%	8.65%	8.65%

CHAPTER 2: CUSTOMER, CONSUMPTION, OPERATING REVENUE

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations regarding the number of customers, water consumption, and operating revenues in Test Year 2009 for SWS in Los Angeles County.

B. SUMMARY OF RECOMMENDATIONS

Tables 2-3 through 2-7 at the end of this chapter show DRA's recommendations and SWS' estimates for the average number of customers, water consumption, and operating revenues. DRA concurs with SWS' estimates for the average number of customers. For Test Year 2009, the total average number of customers estimated by both parties is 75,530. DRA's total water supply estimated for the test year is 25,519,528 Ccf compared to SWS' 25,501,331 Ccf.

At the present and SWS' 2009 proposed rates, DRA's calculated operating revenues for the test year are $51,546,835 and $58,474,783 while SWS's are $51,201,795 and $58,124,899, respectively. The difference in operating revenues estimated by the parties is due to the differences in the total water sales used to calculate the respective revenues, and revenues from the Service Line Maintenance Program (Account 614.1) which are discussed in DRA's separate report, titled "Cost Allocation of Southwest Water Company/Utility Group."

C. DISCUSSION

D.04-06-018 sets forth the revised Rate Case Plan (RCP) standards and procedures for Class A water utilities filing a general rate case (GRC) application. On December 14, 2006, the Commission issued Rulemaking 06-12-016 to consider revisions to the rate case plan. The Commission issued a final decision (D.07-05-062) on R.06-12-016 adopting modifications to the existing rate case plan. D.07-05-062 did not modify the methodology that should be applied for developing water consumption and operating revenues.

Utilities are required to forecast customer growth using a five-year average of the change in the number of customers by customer class. Should an unusual event occur, or be expected to occur, such as the implementation or removal of the limitation on the number of customers, then an adjustment to the five-year average will be made. The applicant utility and DRA must use the "New Committee Method" to forecast per-customer usage for the residential and small commercial customer classes in general rate cases, based on the Standard Practice No. U-2 and "Supplement to Standard Practice No. U-25" with the following improvements adopted by D.04-06-018:

- Use monthly data for 10 years, if available;
- Use 30-year average for forecast values for temperature and rain; and
- Remove periods from the historical data in which sales restrictions were imposed or the Commission provided the utility with sales adjustment compensation, but replace with additional historical data to obtain 10 years of monthly data, if available.[1]

Water sales for classes of service other than residential and small commercial (such as irrigation, industrial, reclaimed, public authority, and others) should be forecasted based on total consumption by class using the best available data.[2] The "New Committee Method" is not applicable to any other classes other than the residential and commercial classes.

Test Year revenues will be based on the test year forecasted sales and customer estimates.

1) Number of Customers

DRA's and SWS' analyses are in accordance with the provisions set forth in the RCP. DRA concurs with SWS' estimates for the number of other various

[1] D.04-06-018, memo, at App. 6-7.

[2] (D) 04-06-018, at App. 6-7, sec. IV (1) (C), subsec. "Results of Operation."

classes of customers--which used the 5-year incremental average to calculate the water customer growth based on the last recorded data from 2002 through 2006. The total number of customers forecasted for the Test Year 2009 is 75,530 customers.

2) Average Consumption

DRA concurs with SWS' forecasts of water use for the residential, industrial, public authorities, resale, and construction water services, but DRA differs from SWS' forecasts for business class of water use for San Jose-Hills and Whittier/La Mirada Service Areas.

Differences in the water uses forecasted for business customers are due to the difference in the available data used to calculate the water uses by the parties. DRA's analysis is based on the last recorded water uses (from August, 1997 through July, 2007) while SWS used data from April, 1997 through March, 2007. Both parties forecasted by using the weather normalized regression method.

DRA's forecasted water use for the business customers more reasonably reflects the future pattern of water use than that of SWS because it incorporates more recent data.

Table 2-1 shows a comparison of both DRA and SWS' analyses of the business water usage for San Jose-Hills Service Area.

Table 2-1 Business Regression Statistic

San Jose-Hills Service Area

Item	DRA	SWS
R^2	0.935281	0.925775
Water Use (Ccf)	1,545.4	1,539.3
Observation (Months)	120	120
Constant	87.40041	776.593
Rain (Inches)	-2.698095	-2.606369

Temperature (^{o}F)	0.417262	0.161264
January	-4.515858	-679.2186
February	-6.797793	-681.6179
March	-6.897445	-680.7417
April	4.793174	-670.3417
May	19.73141	-654.8218
June	35.29741	-637.7886
July	43.55231	-625.9622
August	47.37412	-622.2196
September	40.27741	-629.7679
October	21.38473	-650.2472
November	6.752525	-666.6935
December	0	-674.5532

Table 2-2 shows a comparison of both DRA and SWS' analyses of the business water usage for Whittier/La Mirada Service Area.

Table 2-2 Business Regression Statistic

Whitter/La Mirada Service Area

Item	DRA	SWS
R^2	0.913147	0.906644
Water Use (Ccf)	1,443.7	1,438.3
Observation (Months)	120	120
Constant	66.93406	611.9078
Rain (Inches)	-2.587291	-2.454802
Temperature (^{o}F)	0.565975	0.348631
January	-1.430702	-534.1982
February	0.002893	-532.9281
March	-0.537748	-532.571

April	10.50088	-523.8149
May	24.42761	-508.0129
June	39.58779	-491.4083
July	45.34618	-482.4861
August	46.83605	-481.4982
September	35.88894	-492.8386
October	18.20187	-511.892
November	6.889688	-524.773
December	0	-532.5957

DRA's forecasted water usage for business customers is 1,545.4 Ccf for San Jose-Hills Service Area and 1,443.7 Ccf for Whittier/La Mirada Service Area, compared to SWS' 1,539.3 Ccf and 1,438.3 Ccf, respectively. DRA's analysis provides better R^2 values of 93.5% for San Jose-Hills Service Area and 91.3% for Whittier/La Mirada Service Area compared to 92.6% and 90.7%, respectively by SWS. In a regression model, the higher R^2 value, the more reliable statistical inferences for the "goodness of fit".

Water sales are determined by the product of the number of customers and their average water use. For the Test Year 2009, DRA's forecasted total water sales are 23,886,278 Ccf (13,872,721 Ccf for San Jose-Hills Service Area and 10,013,557 Ccf for Whittier/La Mirada Service Area) as opposed to SWS' 23,869,077 Ccf (13,863,058 Ccf for San Jose-Hills Service Area and 10,006,019 Ccf for Whittier/La Mirada Service Area). The difference in total water sales is due to the different regression models used to forecast water sales by the parties as discussed above.

3) Total Water Supply

The total water supply represents the sum of water sales and unaccounted-for water. Water sales are calculated by the product of the number of customers

and water use. For the Test Year 2009, DRA's estimate for the total water supply is 25,519,528 Ccf compared to SWS' 25,501,331 Ccf.

The difference in total water supplies estimated for Test Year 2009 is due to the difference in water use estimated by DRA and SWS.

Unaccounted-for water is the amount of water used in operations for flushing the system and water lost due to leakage—which is determined to be the difference between the total amount of water produced and the total amount of water recorded for sales.

DRA accepts SWS' requested 6.40% unaccounted-for water based on the most recent 5-year recorded average. The trend on unaccounted-for water for the last 5 years has been trending downward from 6.07% in 2002 to 6.03% in 2006. Unaccounted-for water percentages recorded for the last 5 years are 6.07% in 2002, 7.00% in 2003, 6.86% in 2004, 5.93% in 2005, and 6.03% in 2006.

4) Operating Revenue

Operating revenue is calculated by multiplying the number of customers by their applicable water usage and applying the current tariff rates for the present revenue, and to the proposed rates for the proposed revenue.

For Test Year 2009, the total operating revenues calculated by DRA are $51,546,835 at the present rates and $58,474,783 at the SWS' proposed rates while SWS' are $51,201,795 and $58,124,899, respectively. DRA's total operating revenues estimated for Test Year 2009 includes the P.U.C. Reimbursement Fee of $753,807 at present and $856,444 at SWS' proposed rates; whereas SWS' are $753,449 and $856,014, respectively. These P.U.C. Reimbursement Fees should correspond to the respective line items of expenses.

The difference in the operating revenues estimated by DRA and SWS is due to the differences in the total water sales used to calculate the respective revenues and revenues from the Service Line Maintenance Program (Account 614.1) which are further discussed in DRA's separate report titled "Cost Allocation of Southwest Water Company/Utility Group."

D. CONCLUSION

Upon investigating and analyzing SWS' requests for the number of customers, water consumption, and revenues, DRA believes its estimates are just and reasonable for the reasons discussed above. The Commission should adopt DRA's recommendations.

TABLE 2-3
SUBURBAN WATER SYSTEMS
OPERATING REVENUES
Test Year 2009
(at Present Rates)

Item	DRA	Utility	Utility Exceeds DRA
	(A)	(B)	(C)
	(Dollars in Thousands)		
Metered Service:			
Residential	37742.0	37742.0	0.0
Business	8157.4	8133.5	-23.9
Industrial	1091.2	1091.2	0.0
Public Authority	2468.1	2468.1	0.0
Sale to Other Water Utilities for Resale	17.2	17.2	0.0
Construction/Flooding Sales	85.6	85.6	0.0
Total Metered	49561.4	49537.5	-23.9
Other Water Service Revenues			
P.U.C. Reimbursement Fee	753.8	753.4	-0.4
Private Fire Protection Service	696.4	696.4	0.0
Fire Hydrant Service on Private Property	13.1	13.1	0.0
Total Other Water Service Revenue	1463.4	1463.0	-0.4
Total Water Service Revenue	51024.8	51000.5	-24.3
Total Water Service Revenue less PUC	50271.0	50247.1	-23.9
Other Water Revenue			
Miscellaneous Service Revenues	130.0	130.0	0.0
Rent from Water Property	8.6	8.6	0.0
Other Revenues	13.5	13.5	0.0
Other Revenues - Service Line Maint. Prog.	356.4	35.6	-320.8
Total Other Water Revenue	508.5	187.8	-320.8
Amortization of Deferred Revenue	13.5	13.5	0.0
Total Operating Rev.	51546.8	51201.8	-345.0

TABLE 2-4

SUBURBAN WATER SYSTEMS

AVERAGE SERVICES (San Jose Hill and Whittier/La Mirada)
Test Year 2009

Item	DRA Analysis (A)	Utility Estimated (B)	Utility Exceeds DRA (C)
Metered Service:			
Residential	71214.0	71214.0	0.0
Business	2980.0	2980.0	0.0
Industrial	42.0	42.0	0.0
Public Authority	472.0	472.0	0.0
Sales to Other Utilities for Resale	7.0	7.0	0.0
Construction Water Service	43.0	43.0	0.0
Total Average Metered Customers	74758.0	74758.0	0.0
Private Fire Protection	702.0	702.0	0.0
Fire Hydrant Service on Private Property	70.0	70.0	0.0
Total Average Metered and Unmetered Customers	75530.0	75530.0	0.0

TABLE 2-5

SUBURBAN WATER SYSTEMS

Average consumption (Ccf) per customer (San Jose Hill)
Test Year 2009

Item	DRA Analysis (A)	Utility Estimated (B)	Utility Exceeds DRA (C)
Metered Service:			
Residential	251.8	251.8	0.0
Business	1545.4	1539.3	-6.1
Industrial	24006.0	24006.0	0.0
Public Authority	2506.0	2506.0	0.0
Construction Water Service	609.0	609.0	0.0

TABLE 2-6

SUBURBAN WATER SYSTEMS

Average consumption (Ccf) per customer (Whittier/La Mirada)
Test Year 2009

Item	DRA Analysis (A)	Utility Estimated (B)	Utility Exceeds DRA (C)
Metered Service:			
Residential	231.7	231.7	0.0
Business	1443.7	1438.3	-5.4
Industrial	7455.0	7455.0	0.0
Public Authority	3614.0	3614.0	0.0
Sales to Other Utilities for Resale	704.0	704.0	0.0
Construction Water Service	1022.0	1022.0	0.0

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TABLE 2-7

SUBURBAN WATER SYSTEMS

TOTAL CONSUMPTION AND SUPPLY (San Jose Hill and Whittier/La Mirada)
(Ccf per year - Test Year 2009)

Item	DRA (A)	Utility (B)	Utility Exceeds DRA (C)
Metered Service Sales:			
Residential	17304405.0	17304405.0	0.0
Business	4463319.0	4446118.0	-17201.0
Industrial	710334.0	710334.0	0.0
Public Authority	1370084.0	1370084.0	0.0
Sales to Other Utilities for Resale	4928.0	4928.0	0.0
Construction Water Service	33208.0	33208.0	0.0
BKK	0.0	0.0	0.0
Total Metered	23886278.0	23869077.0	-17201.0
Unacct-For Water (6.40%)	1633249.8	1632073.6	-1176.1
Supply Forecast	25519527.8	25501150.6	-18377.1

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3

CHAPTER 3: EXPENSES

A. INTRODUCTION

This Chapter sets forth the analyses and recommendations of DRA for operation and maintenance and administrative and general expenses. DRA's review is based on SWS' application, testimony, supporting work papers, field trip, discussions with SWS' employees, e-mails from SWS, and SWS' data responses.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends $32,499,900 in operating expenses for Test Year 2009. SWS requests $39,149,300. DRA's estimate is $6,649,400 lower than SWS' request due to the use of different assumptions and methodologies as discussed in the following section to forecast these future expense amounts.

Table 3 below compares DRA's recommendations and SWS' requests of operating expenses.

C. DISCUSSION

Table 3 summarizes the operating expenses recommended by DRA and compares them with those requested by SWS. Each expense listed is discussed below.

TABLE 3
SUBURBAN WATER SYSTEMS
SUMMARY OF OPERATING EXPENSES
TEST YEAR 2009

Account	(Dollars in Thousands) Operating Expenses:	DRA	SWS	SWS Exceed DRA Amount	Percentage
	Payroll Expense	$ 6,049.7	$ 7,824.9	$ 1,775.2	22.7%
703	Pumped Water Assessment, Main Basin	4,586.0	4,586.0	-	0.0%
703	Pumped Water Assessment, Central Basin	282.7	282.7	-	0.0%
703	Balancing Account Expense	-	-	-	0.0%
704	Purchased Water	9,032.5	8,981.1	(51.4)	-0.6%
711	Maintenance-Well Repairs	50.9	50.9	-	0.0%
726	Purchased Power	3,056.5	3,078.7	22.2	0.7%
	Cooperating Respondents' Reimbursement	(28.4)	(27.8)	0.6	-2.0%
724	Pumping Labor and Expense	-	-	-	0.0%
725	Miscellaneous Expense	1.5	1.5	-	0.0%
730	Maintenance of Structures & Improvements	29.0	40.9	11.9	29.1%
732	Maintenance of Pumping Equipment	101.5	122.2	20.7	17.0%
733	Maintenance of other Pump Plant	-	-	-	0.0%
742	Operation Labor & Expenses	236.8	257.4	20.7	8.0%
743	Miscellaneous Expense	-	-	-	0.0%
744	Chemicals and Filtering Materials	231.7	327.6	96.0	29.3%
748	Maintenance of Water Treatment Equipment	25.3	25.3	-	0.0%
752	Storage Facilities Expenses	106.6	106.6	-	0.0%
754	Meter Expense	-	-	-	0.0%
760	Maintenance of Reservoirs & Tanks	15.5	16.7	1.2	7.2%
761	Maintenance of Transmission & Distributiion Mains	692.3	771.5	79.2	10.3%
763	Maintenance of Services	175.5	207.0	31.5	15.2%
764	Maintenance of Meters	91.2	164.1	72.9	44.5%
765	Maintenance of Hydrants	59.5	59.5	-	0.0%
773	Postage	334.1	332.3	(1.8)	-0.5%
775	Uncollectibles 0.19%	95.5	95.5	(0.0)	0.0%
772	Meter Reading Expenses	21.9	23.2	1.2	5.4%
773	Customer Records & Collection Expenses	82.5	82.5	-	0.0%
783	Water Conservation	200.0	204.8	4.8	2.3%
	Capacity Reservation Charges	-	124.6	124.6	100.0%
792	Office Supplies & Other Expenses	895.0	1,002.3	107.3	10.7%
793	Property Insurance	293.5	293.5	-	0.0%
794	Insurance, Injuries & Damages	912.2	912.2	-	0.0%
795	Employees Pension and Benefits	1,039.1	1,267.2	228.1	18.0%
796	Franchise Requirements 1.3%	653.5	653.2	(0.3)	0.0%
797	Regulatory Commission Expenses	129.1	129.1	-	0.0%
797	PUC Reimbursement Fee	-	753.4	753.4	100.0%
ua	Amortization of CWA Legislative Fees	-	-	-	0.0%
798	Outside Services Employed	354.8	530.5	175.6	33.1%
799	Miscellaneous General Expenses	91.5	110.5	19.0	17.2%
805	Maintenance of General Plant	321.6	322.9	1.3	0.4%
811	Rents	350.6	429.7	79.1	18.4%
812	General Administrative Overhead-Cr	(758.5)	(999.3)	(240.8)	24.1%
901	Parent Company Allocation	870.7	3,738.6	2,867.9	76.7%
901	Utilitity Group Allocation	745.5	986.1	240.6	24.4%
903	Transportation Expenses-Clearing	978.2	1,110.7	132.5	11.9%
906	Tools & Work Equipment-Clearing	92.9	169.0	76.1	45.0%
	Total Operating Expenses	$ 32,499.9	$ 39,149.3	$ 6,649.4	17.0%

1

1) Escalation Factors

SWS applies the various escalation factors established by the DRA Energy Cost of Service Branch ("ECSB") found in the August 31, 2007 publication in developing most of its level of expenses requested in this Application. DRA uses the same edition of ECSB's publication to determine the level of expenses for its recommendation.

2) Payroll Expenses

SWS' payroll expenses include payroll ($7,824,881), the filling of two new positions after the last General Rate Case, twelve new positions in this General Rate Case, and unfilled positions.

SWS shows the recorded expenses for payroll expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1 and 5-1A, Pages 22 and 23. SWS show the number of employees for 2006 in Work papers, Volume 2 of 2, Pages 20 and 21. The table below shows the payroll expense by function, number of employee in 2006, payroll expense recorded in 2006, DRA's recommendation in the Test Year, and SWS' request in the Test Year.

Payroll Expense

Items	2006 Positions	2006 Recorded	2009 DRA	2009 SWS
Operation		$ 1,397,740	$ 1,509,571	$ 1,952,542
Maintenance		1,040,605	1,123,862	1,453,651
Administrative&General		3,163,146	3,416,225	4,418,688
Total	85	$ 5,601,491	$ 6,049,658	$ 7,824,881

SWS stated that the Company has 111 positions authorized by the Commission at Application, Exhibits A-F, Exhibit A, Chapter 3-Company Operations, Page 3-2. SWS listed 114 positions, which 85 positions were filled

and it appears that 29 positions were unfilled, in 2006 at Work papers, Volume 2 of 2, Pages 20 and 21. DRA uses the same information and shows 85 positions to bring the recorded numbers forward in Payroll Expenses. The 85 positions include two (2) part time positions. Water J. Bench's testimony supports the number of positions under Tab 2, Page 5, "Suburban employee participation has remained relatively stable at 83 employees and 86 employees for the 2007-07 and 2007-08 plan years respectively" in the discussion of the health insurance plan. It appears that SWS' has been able to run its utility operations with a staffing level in the range of 83 to 86 positions. The available information of 111 authorized positions and 85 filled positions demonstrates that SWS have about 26 authorized positions vacant in 2006. SWS indicates that in 2005 there were 112 authorized positions and its work papers shows 74 filled positions from the listed 114 positions demonstrates that SWS have about 38 authorized positions vacant in 2005. It appears that the Commission has previously authorized all these positions, but the company has not filled them.

SWS is seeking the approval of filling an Information Technology Support Technician II position in 2007 for the main office and Quality Assurance Technician I position in 2006 for the Whittier/La Mirada Service Area.

DRA recommends denying the authorization of the Information Technology Support Technician II position as a new position. Further discussion will be address by a separate DRA witness in the "Cost Allocation of Southwest Water Company//Utility Group" Report.

DRA recommends denying the authorization of the Quality Assurance Technician I position as a new position. It would be reasonable for SWS to consider using the available previous authorized vacancies to fill the position in fulfilling the needs of the customers and the Company.

SWS requests the approval of twelve new positions, which consist of three Leak Crew positions and one Quality Assurance Technician position in 2009 for the San Jose Hills Service Area; three Leak Crew positions and two Quality

Assurance Technicians positions in 2009 for the Whittier/La Mirada Service Area; and one Benefit Analyst position, one Water Conservation Coordinator position, and one Supplier Diversity Coordinator position in 2009 for the main office.

SWS describes a leak crew as consisting of "one equipment operator, one Utility Worker II or III, and one Utility Worker I" at Work papers, Volume 2 of 2, Page 25, Paragraph 3, with "One of the most important and visible tasks completed by the District staff is the repair of leaks" at Paragraph 1.

DRA recommends denying the request for the three Leak Crew new positions in 2009 for the San Jose Hills Service Area for the following reasons:

- There were 408 leaks recorded in 2006 for the San Jose Hills Service Area shown in the Minimum Data Requirement Responses, I. E-Supply and Distribution Infrastructure Status and Planning, Question No. 6, Page 12, and SWS present leak crew repaired 486 leaks in 2006 and 573 leaks in 2007 at SWS response to DRA' Data Request No. EYM-2, Question No. 10;

- The trend of unaccounted for water has been declining during the past years from 7.00% in 2003 to 6.03% in 2006 as shown in the Minimum Data Requirement Responses, I. E-Supply and Distribution Infrastructure Status and Planning, Question No. 2, Page 11;

- The maintenance, repair, and replacement of transmission and distribution mains and other infrastructure projects performed by SWS at the present to the Test Year would further reduce the water loss from its system;

- SWS is in compliance with all regulatory government agencies requirements;

- On average, SWS customer growth is less than 1% per year; and

- It would be reasonable for SWS to consider using the available previous authorized vacancies to fill the positions in fulfilling the needs of the customers and the Company.

DRA recommends denying the request to fill the Quality Assurance Technician as a new position in 2009 for the San Jose Hills Service Area for the following reasons:

- SWS' water system is in compliance with water quality standards;
- SWS is in compliance with all regulatory governmental agencies' requirements;
- It appears that SWS is in compliance with the Unregulated Contaminant Monitoring Rule in effect now and will continue the same efforts when the new Unregulated Contaminant Monitoring Rule 2 starts in 2009;
- It appears that SWS is in compliance with the Standard Monitoring Plan For Initial Distribution System Evaluation, Stage 1 Disinfectants and Disinfection Byproduct Rule and will continue the same efforts when the new Standard Monitoring Plan For Initial Distribution System Evaluation, Stage 2 Disinfectants and Disinfection Byproduct Rule start in 2012;
- On average, SWS customer growth is less than 1% per year; and
- It would be reasonable for SWS to consider using the available previous authorized vacancies to fill the positions in fulfilling the needs of the customers and the Company.

DRA recommends denying the request to fill three Leak Crew new positions in 2009 for the Whittier/La Mirada Service Area for the following reasons:

- There were 356 leaks recorded in 2006 for the Whittier/La Mirada Service Area shown at Minimum Data Requirement Responses, I. E-Supply and Distribution Infrastructure Status and Planning, Question No. 6, Page 12, and SWS present leak crew repaired 320 leaks in 2006 and 434 leaks in 2007 at SWS response to DRA' Data Request No. EYM-2, Question No. 10;
- The trend of unaccounted for water has been declining during the over the last four years, from 7.00% in 2003 to 6.03% in 2006 as shown in Minimum Data Requirement Responses, I.E-Supply and

Distribution Infrastructure Status and Planning, Question No. 2, Page 11;

- The maintenance, repair, and replacement of transmission and distribution mains and other infrastructure projects performed by SWS at the present to the Test Year would further reduce the water loss from its system;
- SWS is in compliance with all regulatory government agencies' requirements;
- On average, SWS customer growth is less than 1% per year; and
- It would be reasonable for SWS to consider using the available previous authorized vacancies to fill the positions in fulfilling the needs of the customers and the Company.

DRA recommends denying the request to fill two new Quality Assurance Technician positions in 2009 for the Whittier/La Mirada Service Area for the following reasons:

- SWS' water system is in compliance with water quality standards;
- SWS is in compliance with all regulatory governmental agencies;
- It appears that SWS is in compliance with the Unregulated Contaminant Monitoring Rule in effect now and will continue the same efforts when the new Unregulated Contaminants Monitoring Rule 2 start in 2008;
- It appears that SWS is in compliance with the Standard Monitoring Plan For Initial Distribution System Evaluation, Stage 1 Disinfectants and Disinfection Byproduct Rule and will continue the same efforts when the new Standard Monitoring Plan For Initial Distribution System Evaluation, Stage 2 Disinfectants and Disinfection Byproduct Rule start in 2012;
- On average, SWS customer growth is less than 1% per year; and
- It would be reasonable for SWS to consider using the available previous authorized vacancies to fill the positions in fulfilling the needs of the customers and the Company.

DRA recommends denying authorization for the Benefit Analyst position as a new position. Further discussion will be address by a separate DRA witness in the "Cost Allocation of Southwest Water Company /Utility Group" Report.

DRA recommends denying authorization for the Water Conservation Coordinator position as a new position. Further discussion will be address in the "Cost Allocation of Southwest Water Company/Utility Group" Report.

DRA recommends denying authorization for the Supplier Diversity Coordinator position as a new position. Further discussion will be address in the "Cost Allocation of Southwest Water Company/Utility Group" Report.

The components of SWS total payroll expense are shown at Work papers, Volume 1 of 2, Worksheet 5-1A, Page 23. The components of salaries, overtime, standby, vacation sold unused sick time/bonus, and capitalized payroll contribute to SWS total payroll expenses of $5,601,491 in 2006. DRA use the same information and bringing the adjusted expenses forward to the Test Year.

SWS requests $7,824,881 for payroll expense in the Test Year. SWS start with using the recorded 85 positions and payroll expenses of $5,601,491in 2006 as a base for estimating purposes, Then, SWS use the vacancies to increase the 85 positions to 114 positions to create a full employment base in 2007. Then, SWS adds the new 12 positions requested to be fill in Test Year 2009 to the 114 positions totaling to 126 positions in 2007. The 126 positions in 2007 produce an inflated estimate of $6,696,426 in payroll expenses as shown in Work papers, Volume 2 of 2, Payroll Expenses, Page 24. To depict an example for a vacant authorized position contributing to the inflate the payroll expenses such as Customer Service Office Representative I, there was zero dollar recorded in 2006, $33,904 estimated in 2007 and $34,163 estimated in 2008 shown at Work papers, Volume 2 of 2, Page 2, Line 96 and to depict an example for a new request position contributing to the inflate the payroll expenses such as Quality Assurance Technician, the starting salary is $60,000 in 2007, $61,500 in 2008, $62,791 in Test Year 2009, and $63,984 in 2010 shown at Work papers, Volume 2 of 2, Page

24, Line 10.Then, SWS apply the labor escalation factor to the payroll expenses of 2007 to produce an estimate of $7,671,452 in 2008. SWS apply the labor escalation factor to the payroll expense of 2008 to produce an estimate of $7,824,881 in Test Year.

DRA recommends rejecting Suburban's method in forecasting payroll expenses for the following reasons:

- The information available demonstrates to the contrary that SWS was at full employment with 114 positions in 2006;
- SWS adds the 12 new positions requested to be filled in Test Year 2009 prematurely in 2007 to further inflate the positions to 126 at Work papers, Volume 2 of 2, Page 24;
- The sum of 85 fill positions in 2006, 29 unfilled positions in 2006 and 12 new unfilled positions in 2007 inflates the payroll expenses in the years 2007 through 2009 and other related payroll expense such as payroll taxes for the same years;
- It appears that the Commission has previously authorized 111 positions but SWS has not filled them;
- In D.05-07-044, the Commission found, on page 10, that the Commission did not include the vacant positions, indicating that adjustments should not be made for temporary vacancies absent a showing of extraordinary circumstances; and
- Further, D.05-07-044 stated that most utilities will have vacancies and "To the extent there were vacancies in the recorded year, we should assume there will also be comparable vacancy savings in the test year and escalation years."

DRA recommends $6,049,700 for payroll expenses in the Test Year. DRA reduces SWS' request by $1,775,200.

DRA uses the same recorded total payroll expenses of $5,601,491, as SWS, in 2006 to develop its forecast of payroll expenses. DRA applies the labor escalation factor to the recorded payroll expenses in 2006 and bring it forward to

the expense dollars of 2007. DRA applies the labor escalation factor to the 2007 expenses to bring it forward to the 2008 expense dollars. And the labor escalation factor was applied to the 2008 expenses to bring it forward to the estimate of $6,049,700 in the Test Year.

3) 703-Pumped Water Assessments-Main Basin

SWS requests $4,586,000 in the Test Year for pump water assessments-main basin expenses. DRA uses the same rates applied by SWS and recommends the same level of expenses in the Test Year.

4) 703-Pumped Water Assessment-Central Basin

SWS requests $282,700 in the Test Year for pumped water assessment-central basin expenses. DRA uses the same rates applied by SWS and recommends the same level of expenses in the Test Year.

5) 704-Purchased Water

SWS requests $8,981,100 for purchased water expenses in the Test Year.

DRA makes an upward adjustment of $51,400 due to a higher estimate in the level of water supply and sales number. DRA uses the same rates applied by SWS and recommends $9,032,500 for purchased water expenses in the Test Year.

The higher level of water supply and sales numbers estimates are being furnished by DRA's Revenue witness and are discussed in are addressed in Chapter 2 of this Report.

6) 711-Maintenance-Well Repairs

SWS requests $50,900 in Test Year for maintenance-well repairs expenses. DRA concurs with SWS estimate and recommends the same level of expenses in the Test Year.

7) 726-Purchased Power

SWS requested $3,078,700 for purchase power expenses in the Test Year.

DRA makes a downward adjustment of $22,200 due to a saving of 281,565 kilowatts per hour to Plant 147-W3 as recommended by DRA's Plant witness. DRA uses the same rates and recommends $3,056,500 for purchased power expenses in the Test Year.

The saving of power usage was furnished by DRA's Plant witness and discussed in Chapter 4 of this Report.

8) Cooperating Respondents' Reimbursements

SWS apply about $27,800 as Cooperating Respondents' reimbursements and deduct it from its operating expenses in the Test Year.

DRA makes an upward adjustment of $600 due to an audit performed by DRA. DRA recommends a deduction of $28,400 for Cooperating Respondents' reimbursements in the Test Year.

The increase in deduction amount was furnished by DRA's Audit witness and discussed in Chapter 10 of this Report.

9) 724-Pumping Labor and Expenses

SWS requests zero dollars in Test Year for pumping labor and expenses.

DRA recommends the same level of expenses in the Test Year.

10) 725-Miscellaneous Expenses

SWS requests $1,500 in the Test Year for miscellaneous expenses.

DRA recommends the same level of expenses in the Test Year.

11) 730-Maintenance of Structures and Improvements

SWS shows the recorded expenses for maintenance of structures and improvements from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1F, Page 28, as provided in the following table:

Account No. 730
Maintenance of Structures and Improvements

2002	2003	2004	2005	2006
$ 7,138	10,609	88,638	43,456	$ 22,929

SWS requests $40,900 in Test Year for maintenance of structures and improvements expenses or about 78% increase from the expense recorded in 2006. SWS use an adjusted five-year average and apply a yearly escalation factor to the Test Year.

DRA reduces the request by $11,900 and recommends $29,000 for maintenance of structures and improvements expenses in the Test Year or about 27% increase from the expense recorded in 2006.

DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year (2002) and the highest adjusted year (2004) and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in the data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

12) 732-Maintenance of Pumping Equipment

SWS shows the recorded expenses for maintenance of pumping equipment from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1F, Page 28, as provided in the following table:

Account No. 732
Maintenance of Pumping Equipment

2002	2003	2004	2005	2006
$ 94,194	76,574	66,309	151,422	$ 80,386

There are 12 sub-accounts that contribute to the total expense in Account No. 732 as shown at Worksheet 5-1F.

SWS requests $122,195 in Test Year for maintenance of pumping equipment expenses or about a 52% increase from recorded expenses from 2006. SWS use an adjusted five-year average and apply an annual escalation factor to the Test Year for most of the sub-accounts.

DRA reduces the request by $20,700 and recommends $101,500 for the maintenance of pumping equipment expenses in the Test Year or about 26% increase from the recorded expenses from 2006.

The recorded expense of each year is used by DRA and is being escalated to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

13) 733-Maintenance of Other Pump Plant

SWS requests zero dollars in Test Year for maintenance of other pump plant expenses.

DRA recommends the same level of expenses in the Test Year.

14) 742-Operation Labor and Expenses

SWS shows the recorded expenses for operation labor and expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1G, Page 29, as provided in the following table:

Account No. 742
Operation Labor and Expenses

2002	2003	2004	2005	2006
$ 183,769	182,392	179,119	187,185	$ 249,649

There are six sub-accounts that contribute to the total expense in Account No. 742 as shown in Worksheet 5-1G.

SWS requests $257,426 in the Test Year for operation labor and expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply a yearly escalation factor to the Test Year for most of the sub-accounts.

DRA reduces the request by $20,700 and recommends $236,800 for operation labor and expenses in the Test Year.

DRA uses the recorded expenses for each year and escalates it to 2006 expense dollar. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of normal expense levels. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

15) 743-Miscellaneous Expenses

SWS requests zero dollars in Test Year for miscellaneous expenses.

DRA recommends the same level of expenses in the Test Year.

16) 744-Chemicals and Filtering Materials

SWS shows the recorded expenses for chemicals and filtering materials from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1G, Page 29, as provided in the following table:

Account No. 744
Chemicals and Filtering Materials

2002	2003	2004	2005	2006
$ 96,031	117,228	161,775	207,024	$ 215,457

SWS requests $327,616 in the Test Year for chemicals and filtering materials expenses. SWS use an annualized amount and apply a factor to the 2007

expense levels. SWS then insert a certain number for 2008 and apply an annual escalation factor to the Test Year. SWS use the certain number in 2008 in Work papers, Volume 1 of 2, Page 29, without providing a cross-reference to support the number.

Therefore, DRA reduces SWS' request by $96,000 and recommends $231,700 for chemicals and filtering materials expenses in the Test Year.

DRA uses the last recorded expense of $215,457 for 2006 to form a reasonable base for estimating purposes. DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year, which results in an estimate of $231,700.

17) 748-Maintenance of Water Treatment Equipment

SWS requests $25,300 in the Test Year for the maintenance of water treatment equipment expenses.

DRA recommends the same level of expenses in the Test Year.

18) 752-Storage Facilities Expenses

SWS requests $106,600 in the Test Year for storage facilities expenses.

DRA recommends the same level of expenses in the Test Year.

19) 754-Meter Expenses

SWS requests zero dollars in Test Year for meter expenses.

DRA recommends the same level of expenses in the Test Year.

20) 760-Maintenance of Reservoirs and Tanks

SWS shows the recorded expenses for maintenance of reservoirs and tanks from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1H, Page 30, as provided in the following table:

Account No. 760
Maintenance of Reservoirs and Tanks

2002	2003	2004	2005	2006
$ 6,151	9,325	16,992	13,048	$ 25,776

SWS requests $16,682 in the Test Year for the maintenance of reservoirs and tanks expenses. SWS use an adjusted five-year average and apply a yearly escalation factor to the Test Year.

DRA reduces the request by $1,200 and recommends $15,500 for maintenance of reservoirs and tanks expenses in the Test Year.

DRA uses the recorded expense for each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

21) 761-Maintenance of Transmission and Distribution Mains

SWS shows the recorded expenses for the maintenance of transmission and distribution mains expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1I, Page 31, as provided in the following table:

Account No. 761
Maintenance of Transmission and Distribution Mains

2002	2003	2004	2005	2006
$ 481,434	413,509	767,463	666,343	$ 772,460

There are 16 sub-accounts that contribute to the total expense in Account No. 761 as shown at Worksheet 5-1I.

SWS requests $771,471 in the Test Year for the maintenance of transmission and distribution mains expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply an annual escalation factor to the Test Year for most of the sub-accounts.

DRA reduces SWS' request by $79,200 and recommends $692,300 for maintenance of transmission and distribution mains expenses in the Test Year.

DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

22) 763-Maintenance of Services

SWS shows the recorded expenses for maintenance of service expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1I, Page 31, as provided in the following table:

Account No. 763
Maintenance of Services

2002	2003	2004	2005	2006
$ 107,277	102,392	171,568	149,263	$ 237,339

There are seven sub-accounts that contribute to the total expense in Account No. 763 as shown at Worksheet 5-1I.

SWS requests $206,960 in the Test Year for the maintenance of service expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply an annual escalation factor to the Test Year for most of the sub-accounts.

DRA reduces SWS' request by $31,500 and recommends $175,500 for maintenance of service expenses in the Test Year.

DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

23) 764-Maintenance of Meters

SWS shows the recorded expenses for the maintenance of meter expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1I, Page 31, as provided in the following table:

Account No. 764
Maintenance of Meters

2002	2003	2004	2005	2006
$ 64,860	37,766	71,131	98,390	$ 138,017

There are nine sub-accounts that contribute to the total expense in Account No. 764 as shown at Worksheet 5-1I.

SWS requests $164,104 in the Test Year for the maintenance of meter expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply an annual escalation factor to the Test Year for most of the sub-accounts.

DRA reduces SWS' request by $72,900 and recommends $91,200 for maintenance of meter expenses in the Test Year.

DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and

the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

24) 765-Maintenance of Hydrants

SWS requests $59,500 in Test Year for maintenance of hydrants expense. DRA recommends the same level of expenses in the Test Year.

25) 773-Postage

SWS requests $332,328 in Test Year for postage expenses. SWS uses the monthly average for the number of mailed pieces in five different classes of mailings to develop the postage cost base for 2007 and extends the base by applying the estimated total average customers for the subsequent years to the Test Year.

DRA recommends an increase of $1,800 to $334,100 as the postage expense in the Test Year. DRA uses the recorded total average customer and postage expense for 2006 to develop an average postage cost per customer base. The cost of postage was increased by about 5% on May 14, 2007. DRA's estimate for 2007 includes the full year effect of the increase in postage and the same number of customers SWS uses. The cost of postage will increase by about 2% on May 12, 2008. DRA's estimate for 2008 includes the full year effect of the increase in postage and the same number of customers used by SWS. DRA's estimate for the Test Year includes the same number of customers used by SWS.

26) 775-Uncollectibles

SWS request a rate of 0.19% for uncollectible expenses. DRA's finds this rate reasonable and recommends the same rate for the Test Year.

27) 772-Meter Reading Expenses

SWS shows the recorded expenses for meter reading expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1J, Page 32, as provided in the following table:

Account 772
Meter Reading Expenses

2002	2003	2004	2005	2006
$ 16,890	18,819	22,361	19,612	$ 18,733

SWS requests $23,200 in the Test Year for meter reading expenses. SWS use an adjusted five-year average and apply an annual escalation factor to the Test Year.

DRA reduces the request by $1,200 and recommends $21,900 for meter reading expenses in the Test Year.

DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and take an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

28) 773-Customer Records and Collection Expenses

SWS requests $82,500 in Test Year for customer records and collection expenses.

DRA recommends the same level of expenses in the Test Year.

29) 783-Water Conservation Expenses

SWS shows the recorded expenses for water conservation expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1K, Page 33, as provided in the following table:

Account 783
Water Conservation

2002	2003	2004	2005	2006
$ -	28,963	20,225	26,962	$ 24,992

SWS requests $204,760 in the Test Year for water conservation expenses. SWS use an estimate of $200,000 in 2008 and adjust the 2008 number upwards to the Test Year. SWS provides a matrix of cost totaling $200,000 per year to certain Best Management Practices that SWS is planning to implement with the Upper San Gabriel Water Basin and Central Water Basin by participating in a cost partnership program with the two water districts. This program focuses primarily on offering rebates to qualifying customers and the districts primarily handle the administration of the program.

DRA reduces the request by $4,800 and recommends $200,000 for water conservation expenses in the Test Year and Escalation Years. DRA's recommendation relies on the annual cost information of $200,000 furnished and intent to implement the Best Management Practices for water conservation by SWS and reduce the inflation dollars of $4,800 from SWS request of $204,800.

30) Capacity Reservation Charges

SWS requests $124,550 in the Test Year for capacity reservation charges as shown in Work papers, Volume 1 of 2, Worksheet 5-1B, Page 24.

DRA reduces the request by the same amount. SWS request the capacity reservation charges twice in this Application. Upon conference with DRA, SWS

agreed to remove the expense here and to keep the expense in Account 704-Purchased Water.

31) 792-Office Supplies and Other Expenses

SWS shows the recorded expenses for office supplies and other expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1K, Page 33, as provided in the following table:

Account No. 792
Office Supplies and Other Expenses

2002	2003	2004	2005	2006
$ 681,449	829,469	730,996	841,673	$ 800,030

There are 28 sub-accounts that contribute to the total expense in Account No. 792 as shown at Worksheet 5-1K.

SWS requested $1,002,334 in the Test Year for office supplies and other expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply an annual escalation factor to the Test Year for most of the sub-accounts.

DRA reduces the request by $107,300 and recommends $895,000 for office supplies and other expenses in the Test Year.

DRA uses the recorded expenses for each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the large fluctuation of the data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

32) 793-Property Insurance

The property insurance expense for the Test Year is being provided by DRA's Southwest/Utility Group Cost Allocation witness, and discussed separately in the "Cost Allocation of Southwest Water Company/Utility Group Report".

33) 794-Insurance, Injuries and Damages

DRA's Southwest/Utility Group Cost Allocation witness will discuss the injuries and damages insurance expenses for the Test Year is being provided by DRA's Southwest/Utility Group Cost Allocation witness and discussed separately in "Cost Allocation of Southwest Water Company/Utility Group Report".

34) 795-Employees Pension and Benefits

SWS shows the recorded expenses for employee pension and benefits expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1L, Page 34. The table below shows 12 sub-account that contribute to the total expenses for Account No. 795-Employees Pension and Benefits, the expenses recorded in 2006, DRA's recommendation for each sub account in the Test Year, and SWS' request for each sub-account in the Test Year.

Account No. 795
Employees Pension and Benefits

No.	Items	2006 Recorded	2009 DRA	2009 SWS
1	Safety Training	$ 12,033	$ 13,146	$ 25,585
2	Training Seminars	69,389	76,312	82,478
3	401K Employer Contribution	226,432	276,582	276,582
4	Misc Charges Pension Plan	4,653	7,889	10,325
5	Fiduciary Insurance	-	2,726	2,726
6	Term Life Insurance	11,432	17,327	17,327
7	Long Term Disability Ins.	20,487	18,899	18,899
8	Medical and Dental Ins.	708,558	855,780	1,063,891
9	Medical & Dental-Employee	(159,882)	(187,705)	(187,705)
10	Employee Welfare	77,285	78,959	80,633
11	Employee Education	19,830	16,686	16,686
12	Employee Benefit Capitalized	(105,836)	(137,496)	(137,496)
	Total	$ 884,381	$ 1,039,105	$ 1,269,931

SWS requests $1,269,931 in Test Year for employees pension and benefits expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply an annual escalation factor to the Test Year for most of the sub-accounts.

DRA reduces the request by $228,100 and recommends $1,039,100 for employees' pension and benefits expenses in the Test Year.

Items Nos. 5 through 9 expenses are being provided by a separate DRA witness in the "Cost Allocation of Southwest Water Company/Utility Group Report".

For the remaining items with different forecast in the table above, DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

35) 796-Franchise Requirements

SWS requested a rate of 1.3% for franchise requirements fee expenses.

DRA recommends the same rate in the Test Year.

36) 797-Regulatory Commission Expenses

SWS requested $129,100 in Test Year for regulatory commission expenses.

DRA recommends the same level of expenses in the Test Year and both Escalation Years.

37) PUC Reimbursement Fee

SWS included the CPUC Reimbursement Fees of $753,449 in the Test Year.

DRA reduces the same amount for the CPUC Reimbursement Fees because the user fees are a separate fee reimbursable to the Commission and omitted from the total revenue requirements.

38) Amortization of CWA Legislative Fees

SWS requests zero dollars in the Test Year for the amortization of California Water Association legislative fees.

DRA recommends the same level of expenses in the Test Year.

39) 798-Outside Services Employed

SWS shows the recorded expenses for outside services employed expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1M, Page 35, as provided in the following table:

Account No. 798
Outside Services Employed

Items	2002	2003	2004	2005	2006
Legal Fee Ordinary	$ 245,501	61,904	(5,124)	90,553	$ 143,021
Auldit Fees	79,500	80,000	172,529	(24,530)	155,400
Other Prof. Services	80,826	51,732	100,755	125,356	93,853
Total	$ 405,827	193,636	268,160	191,379	$ 392,274

There are three sub-accounts that contribute to the total expense in Account No. 798 as shown at Worksheet 5-1M.

SWS requests $530,488 in Test Year for outside services employed expenses. SWS use an adjusted five-year average for the sub-accounts and apply an annual escalation factor to the Test Year and specific forecasts. While SWS says that the specific forecast would be used for "Ongoing SarbOx Fee, including Consultant Fee" in Work papers, Volume 2 of 2, Page 34, SWS did not provide cross referencing to the calculation or documents to justify the reason or forecast. Also, no information was provided by SWS from its outside auditors to support that these fees will continue or increasing in the test year.

Therefore, DRA reduces the request by $175,600 and recommends $354,800 for outside services employed expenses in the Test Year.

DRA uses the recorded expense of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

40) 799-Miscellaneous General Expenses

SWS requests $107,806 in the Test Year for miscellaneous general expenses. SWS use an annualized amount to determine its estimate for the Test Year.

DRA reduces the request by $19,000 and recommends $91,500 for miscellaneous general expenses in the Test Year. DRA uses the recorded expense in 2007 and adjusts that amount upwards to the Test Year. The $19,000 is attributed to the difference in DRA use the recorded expense in 2007 and applies the ECSB's escalation factor to the 2007 expenses and subsequent years and brings the adjusted expense forward to the Test Year. SWS use an annualize expense in 2007 and a sum of two expense amounts in 2008 and apply the ECSB's escalation factor to the 2008 expenses and brings the adjusted expense forward to the Test Year.

41) 805-Maintenance of General Plant

There are eight sub-accounts that contribute to the total expense in Account No. 805 as shown in worksheet 5-1M.

SWS requests $322,898 in Test Year for maintenance of general plant expenses. SWS use an adjusted five-year average for most of the sub-accounts and apply an annual escalation factor to the Test Year.

DRA reduces the request by $1,300 and recommends $321,600 for maintenance of general plant expenses in the Test Year.

DRA uses the recorded expenses of each year and escalates it to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and take an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year.

42) 811-Rents

SWS shows the recorded expenses for rent expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1M, Page 35. The table below shows six sub-accounts that contribute to the total expenses for Account No. 811-Rents, the expenses estimated by DRA before adjustments, DRA's recommendation for each sub-accounts in the Test Year, and SWS' request for each sub-account in the Test Year.

Account 811
Rents

No.	Items	DRA	DRA	SWS
1	AAA Quality Self Storage		$ 2,022	$ 2,022
2	Storetrieve Inc.		5,385	5,385
3	Main Office		183,424	183,424
4	San Jose Hills Office		74,775	74,775
	Common Area Maint. Chg.		15,448	20,477
5	Whittier-La Mirada Office	$ 94,436	47,218	94,436
	Common Area Maint. Chg.	19,692	9,846	19,692
	Real Estate Tax	14,641	7,321	14,641
6	Machine Rent/Repair		5,131	14,845
	Total		$ 350,570	$ 429,697

SWS requests $429,697 in the Test Year for rent expenses. SWS used the lease agreement to estimate its rent expenses. It applies an escalation factor to the estimate expense for 2007 and adjusts upwards to the Test Year for common area maintenance charges and real estate tax per a representative from SWS. SWS took an annualized amount and apply an annual escalation factor to the Test Year for machine rent-repair.

DRA reduces the request by $79,100 and recommends $350,570 for rent expenses in the Test Year.

DRA recommends reducing the expenses for the Whittier-La Mirada Office in the Plant section and DRA's Plant witness discusses the rationale for such a reduction in Chapter 4 of this Report. The reduction prompts a downward

adjustment to the Whittier-La Mirada Office rent, common area maintenance charge, and real estate tax by 50% as shown in the table above.

DRA uses the recorded expense in 2007 for the common area maintenance charge and real estate tax is and applies an escalation factor to the expense in 2007 and adjusts upward to the Test Year.

The recorded expense for machine rent-repairs from 2002 through 2006 is being escalated to 2006 expense dollars. DRA then removes the expenses of the lowest adjusted year and the highest adjusted year and takes an average of the remaining three years. DRA's method reduces the substantial fluctuations in data and provides a result that is more representative of the normal expense level. Finally, DRA applies an escalation factor to the base to develop an adjusted expense for each year for 2007 through the Test Year. This results in a DRA estimate of $5,131 Test Year estimate, compared to SWS' request of $14,845.

43) 812-General Administrative Overhead

SWS requests negative $999,300 in Test Year for general administrative overhead expenses.

DRA recommends negative $758,500 in Test Year for general administrative overhead expenses. DRA's Plant witness provided the expense dollars and discussed separately in the Report.

44) 901-Parent Company Allocation

DRA's Southwest/Utility Group Cost Allocation witness will provide the parent company allocation expenses for the Test Year in a separate report titled "Cost Allocation of Southwest Water Company/Utility Group".

45) 901-Utility Group Allocation

DRA's Southwest/Utility Group Cost Allocation witness will provide the utility group allocation expenses for the Test Year in a separate report titled "Cost Allocation of Southwest Water Company/Utility Group".

46) 903-Transportation Expenses

SWS shows the recorded expenses for transportation expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1N, Page 36. The table below shows 12 sub-accounts that contribute to the total expenses for Account No. 903-Transportation Expenses, the expenses recorded in 2006, DRA's recommendation for each sub-accounts in the Test Year, and SWS' request for each sub accounts in the Test Year.

Account No. 903
Transportation Expenses

No.	Items	2006 Recorded	2009 DRA	2009 SWS
1	Car-Truck Service	$ 101,639	$ 102,673	$ 102,673
2	Car Allowance	-	-	-
3	Car-Truck-Gas	242,372	260,455	260,455
4	Heavy Equipment Service	-	-	-
5	Tires	-	-	-
6	Insurance Deductible	-	-	-
7	Lease Payment-Cars	414,599	509,993	545,993
8	Lease Payment-Heavy Equip	-	-	-
9	License Fees	33,066	30,522	30,522
10	Sales of Vehicles	(88,323)	(96,490)	-
11	Auto Insurance	210,804	246,676	246,676
12	Transportation Capitalized	(53,622)	(75,666)	(75,666)
	Total	$ 860,535	$ 978,163	$ 1,110,653

SWS requests $1,110,653 in the Test Year for transportation expenses. SWS used an adjusted five-year average for Items Nos. 1 and 9 above of the sub-accounts and apply an annual escalation factor to the Test Year. SWS used an annualized amount to develop the estimate in the Test Year for Item No. 3. SWS

use a specific amount in 2008 and the Test Year for Item No. 7. SWS did not provide any cross referencing of the Test Year amount in this Application to the materials or testimony that may provide support for the additional new expenses of $36,000 shown in Work papers, Volume 2 of 2, Page 58. SWS use the estimate amount in 2007 and apply an annual escalation factor to the Test Year for Item No. 11. SWS estimated Item 12 by using a formula.

Therefore, DRA reduces SWS' request by $132,500 and recommends a level of $978,200 for transportation expenses in the Test Year.

Items Nos. 6 and 11 expenses are being provided by a separate DRA witness in the "Cost Allocation of Southwest Water Company/Utility Group Report."

DRA uses the expenses developed in 2008 for Item No. 7 for the amount in the Test Year because of the constant payment for cars leased.

DRA uses the recorded expenses for 2006 for Item No. 10 and applies an escalation factor to develop an adjusted expense for each year for the period 2007 through the Test Year.

47) 906-Tools and Work Equipment

SWS shows the recorded expenses for tools and work equipment expenses from 2002 to 2006 in Work papers, Volume 1 of 2, Worksheet 5-1N, Page 36. The table below shows two sub-accounts that contribute to the total expenses for Account No. 906-Tools and Work Equipment, the expenses recorded in 2006, DRA's recommendation for each sub accounts in the Test Year, and SWS' request for each sub accounts in the Test Year.

Account No. 906
Tools and Work Equipment

No.	Items	2006 Recorded	2009 DRA	2009 SWS
1	Heavy Equipment-Service	$ 17,683	$ 19,318	$ 21,042
2	Lease Payment-Heavy Equipment	36,613	73,562	147,963
	Total	$ 54,296	$ 92,880	$ 169,005

SWS requests $169,005 in Test Year for tools and work equipment expenses. SWS use an adjusted five-year average for Items No. 1 above of the sub-accounts and apply an annual escalation factor to the Test Year. SWS used a specific amount in 2008 and the Test Year for Item No. 2. SWS did not provide any cross referencing of the Test Year amount in this Application to materials or testimony that may provide support for the additional new expenses of $74,400 shown in Work papers, Volume 2 of 2, Page 60. Therefore, DRA reduces SWS' request by $74,400 and recommends $73,562 for Lease Payment-Heavy Equipment tools and work equipment expenses in the Test Year.

DRA uses the recorded expense for 2006 for Items No. 1 and applies an escalation factor to develop an adjusted expense for each year for the period 2007 through the Test Year. DRA uses the expenses developed in 2008 for Item No. 2 for the amount in the Test Year because of constant payments for heavy equipment leased.

D. CONCLUSION

Upon investigation and analysis of SWS' requests and for the reasons discussed above, DRA's estimates are just and reasonable and the Commission should adopt its recommendations.

CHAPTER 4: PLANT IN SERVICE

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations for Plant in Service for SWS' San Jose Hills/Glendora and Whittier/La Mirada service areas. DRA's recommendations are based on DRA's independent review of SWS' application, work papers, construction budgets as well as information and data obtained during the discovery phase of this proceeding.

B. SUMMARY

For utility plant and capital improvements, SWS requests capital improvements for estimated year 2008 in the amount of $10,320,000, $10,331,000 in Test Year 2009, and $10,328,000 in Test Year 2010. DRA recommends plant additions of $7,344,000 in 2008, $7,944,000 in Test Year 2009, and $5,225,000 in Test Year 2010. Differences in SWS and DRA's estimates are due to DRA's adjustments to SWS' requested capital budget.

Additionally, SWS completed several capital projects in 2007 which were not previously reviewed by DRA or authorized by the Commission. DRA has also reviewed those un-authorized projects and offers its analysis and recommendation as follows.

C. DISCUSSION

1) Routine Plant and Direct Purchases

SWS submitted its company-wide capital budget request for new construction, routine plant items, and direct purchases. This section presents DRA's analysis of the routine plant and direct purchases. Routine plant items include Pump replacements, Plant improvements at various locations, Vault replacements, Security upgrades, Blow-off replacements, Quality Assurance or QA Projects, and Governmental projects.

Direct Purchase items include other routine type projects including Service replacements, Meter replacements, Fire hydrants, Office furniture and equipment, Personal computers (both hardware and software), Communications equipment, and Tools, shop and garage equipment. Below is DRA's chart reflecting the Company's request for these Routine Plant and Direct Purchase items and DRA's recommendation.

	2008		TY 2009		TY 2010	
Routine Plant Projects	DRA	SWS	DRA	SWS	DRA	SWS
Pump Replacements at various locations	$200,000	$200,000	$200,000	$200,000	$220,000	$220,000
QA Treatment Improvements	$10,000	$10,000	$100,000	$10,000	$100,000	$100,000
Vault Replacements	$65,000	$65,000	$65,000	$65,000	$70,000	$70,000
Governmental Projects	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
Valve Replacements	$70,000	$70,000	$70,000	$70,000	$90,000	$90,000
Plant Improvements at vaious locations	**$200,000**	**$300,000**	**$200,000**	**$400,000**	**$200,000**	**$312,000**
Security Upgrades	**$100,000**	**$200,000**	**$100,000**	**$200,000**	**$100,000**	**$200,000**
Misc Pipelines - SJH	$135,000	$135,000	$103,000	$103,000	$100,000	$100,000
Misc Pipelines - WLM	$66,000	$66,000	$100,000	$100,000	$100,000	$100,000
Direct Purchases						
Services	$256,000	$256,000	$260,000	$260,000	$280,000	$280,000
Meter Replacements	$354,000	$354,000	$365,000	$365,000	$392,000	$392,000
Hydrants	$70,000	$70,000	$70,000	$70,000	$70,000	$70,000
Office Furniture and Equipment	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000
Personal Computers (hardware and software)	**$100,000**	**$100,000**	**$100,000**	**$100,000**	**$50,000**	**$100,000**
Communication Eqipment	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000
Tools, Shop andGarage Equipment	$20,000	$20,000	$20,000	$20,000	$25,000	$25,000
Total Routine Plant and Direct Purchases	**$1,756,000**	**$1,956,000**	**$1,863,000**	**$2,073,000**	**$1,907,000**	**$2,169,000**

DRA examined SWS' request for routine plant and direct purchases and found that the Company's request was generally consistent with historical expenditures. However, as shown in the above chart, DRA disagrees with SWS' request for Plant Improvements at various locations and security upgrades.

(a) <u>Plant Improvements at various locations</u>

Plant Improvements at various locations includes routine plant maintenance and repair projects, such as general painting of structures and above-ground

equipment, landscaping, repair of fences, and other minor repairs to utility plant. SWS' request for 2008 and Test Years 2009 and 2010 is significantly higher than historical expenditures for these items. According to SWS' response to DRA's data request PXS 02, the Company's recorded average expenditure for the San Jose Hills district was $74,157 and $83,423 for the Whittier/La Mirada district. Based on the recorded expenditure for both districts combined, SWS has spent on average approximately $160,000 per year on such plant improvements.

A more reasonable estimate based on the historical record is $100,000 per year for each district or $200,000 per year company-wide. SWS' request to increase its budget for plant improvements to $300,000 in 2008, $400,000 in 2009, and $312,000 in 2010 is not supported by the historical record and neither has SWS provided any support in this GRC for why the budget should be significantly increased.

According to SWS, field staff in both the San Jose Hills/Glendora and Whittier/La Mirada districts, are unable to perform routine plant improvements due to other duties. Therefore, SWS proposes to hire private contractors to perform these routine plant improvements.

DRA disagrees with SWS' request based on the fact that the Company has not provided supporting analysis of man-hours needed to perform routine maintenance and improvements or to support the Company's claim that such routine maintenance and improvements are going undone. During the discovery phase of this GRC, DRA staff visited numerous plant facilities and company offices in both the San Jose Hills/Glendora district and the Whittier/La Mirada district and found that the Company's offices and facilities were very clean and well maintained, just as they have appeared during past visits by DRA staff over the years.

In addition to the fact that SWS failed to support its need for contracted firms to perform routine plant improvements, the Company also failed to provide any support for the company's estimated cost of hiring private contractors. It

appears that SWS simply entered a desired figure in its budget and provided general anecdotal support. DRA's recommendation of $200,000 per year is more reasonable because DRA's recommendation is based on SWS' historical spending for plant improvements.

(b) <u>Security Upgrades</u>

SWS requests $200,000 per year to fund security upgrades company-wide. However, SWS provided no testimony, proposals, invoices, or bids to support this request. DRA issued data request PXS 02 to SWS to request an explanation of what security measures the company planned. SWS responded to PXS 02 with a list of security upgrades for various plant locations in both the San Jose Hills/Glendora and the Whittier/La Mirada districts. According to the information provided, SWS plans to install various upgrades to office and plant entrances including; automatic entrance/exit buttons, magnetic keying systems, alarm systems connected to the SCADA system, and electric motorized gates.

DRA has reviewed SWS' proposed upgrades and recommends $100,000 per year company-wide. In SWS' request, DRA found that SWS planned to install 11 electronic motor gates at various plant locations. DRA also found that some of the security measures planned at locations listed in SWS' security plan, were duplicated in specific budget estimates for major plant projects at plant(s) 503, 167, 236, and 205. Furthermore, SWS failed to provide any testimony or justification supporting the need for electronic motor gates or the magnetic key system that records employee access to plant locations. During DRA's field visit, SWS' representatives explained that the electronic gates and magnetic keys will record when SWS employees access utility plant. While this explanation sounds good and will allow the company a means of keeping track of employee access to plant, these measures provide no additional security against unauthorized access over and above the existing locks and keys.

DRA observed during its field visit that SWS' representative was required to exit his vehicle to manually unlock gates leading to plant facilities. SWS has not provided any explanation or justification to support the extravagance of changing the existing gates to electronic motorized gates. While the field crew will benefit from not being required to exit their vehicles to open gates, DRA sees no benefit to ratepayers. Electronic motorized gates provide no additional security to plant against unauthorized intruders.

Based on the foregoing, DRA has removed the costs associated with the electronic motor gates and electronic key systems from SWS' proposed security budget. DRA recommends that the Commission adopt DRA's recommendation of $100,000 per year for Security.

(c) Personal Computers (Hardware and Software)[3]

Suburban is requesting $210,000 in year 2007 and $100,000 each for the years 2008, 2009, and 2010 regarding personal computers. However, in its application, Suburban did not provide any details that could explain how these costs estimates were derived. Upon DRA's Plant witness, Patricia Esule's request, Data Request PXS-02, Suburban provided the following costs data for the service districts and the Main Office:

San Jose Service Area	2003	2004	2005	2006	2007	2008	2009	2010
Personal Computers	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Whittier/La Mirada Servc. Area								
Personal Computers	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Main Office								
Personal Computers	207,590	285,950	96,611	203,124	48,853	100,000	100,000	100,000

It is evident from the above data that Suburban has combined all of its capital investments estimates for Personal Computer under "Main Office".

[3] Analysis and recommendation of Personal Computers (Hardware and Software) was performed by DRA witness Mehboob Aslam.

However, its estimates for the year 2007 under "Main Office" do not reconcile with the amount of $210,000 as listed in its workpapers.

Upon DRA's request, Data Request AMX- 11 & 18, Suburban reconciled this difference regarding Personal Computers' estimates. Suburban providing the following responses:

	2003	2004	2005	2006	2007	AVG.
Personal computers (Hardware & Software)	$207,590	$285,950	$96,611	$203,124	$48,853	
Add reclass of Mapping System Improvements					$155,194	
Total Personal computers (Hardware & Software)	$207,590	$285,950	$96,611	$203,124	$204,047	**$199,464**

The yearly capital cost for Office Furniture and Equipment by year is:

Main Office	2003	2004	2005	2006	2007	AVG.
Office Furniture and Equipment (excl personal computers)	$22,265	$2,192	$62,184	$12,973	$185,600	
Less reclass of Mapping System Improvements					$155,194	
	$22,265	$2,192	$62,184	$12,973	$30,406	**$26,004**

The table above, explains that Suburban inadvertently booked an amount of $155,194 for its Mapping Systems Improvements under the Office Furniture & Equipment account. Therefore, by removing $155,194 from Office Furniture & Equipment and booking it under Personal Computers, the corrected amounts for year 2007 are $204,047 for Personal Computers. However, even with this correction, the estimated amounts of $210,000 and $65,000 still remain unexplained.

Suburban explained in its responses that historically costs of its Mapping System Improvements were booked under category of Personal Computers, the future cost estimates therefore, take into account the historic costs of these expenditures.

Suburban explained in its response that Suburban specifically requested its capital project, Mapping Systems Improvements, and the Commission in its previous decision, D.06-08-017 authorized an amount of $210,000 per year for 2006/2007, 2007/2008, and 2008/2009. Taking this information into account, one

could see that the effect of Mapping System Improvements on account Personal Computer will not go beyond year 2009. Therefore, Suburban's costs estimates of $100,000 for the year 2010 are unreasonable.

In its response to DRA's Data Request, AMX-18, Suburban provided the following costs breakdowns for its Personal Computers category:

Response:
Please see the breakdown below for the "Personal Computers (Hardware & Software)":

	2003	2004	2005	2006	2007
Mapping System Upgrades	$162,647	$201,948	$39,271	$149,638	$155,194
PC & Printers Replacements	$43,020	$40,507	$39,815	$44,376	$47,858
Software Purchases and Upgrades	$1,923	$822	$17,525	$9,110	$995
Financial Software Conversion		$42,673			
	$207,590	$285,950	$96,611	$203,124	$204,047

Based on the above historic costs, it is evident that on average, Suburban had spent an amount of $41,929 on its need for Personal Computers and $7,345 for Software. Therefore, DRA recommends a cost of $50,000 in the year 2010 for the purpose of Personal Computers and Software. [Another point to make, if correct, is that the Mapping System Upgrades project has been completed, so the this level of cost is not expected to continue into the test year.]

2) Major Plant Improvements – San Jose Hills/Glendora District

The following chart lists the major plant projects requested by SWS for 2008, Test Years 2009, and 2010. DRA has reviewed SWS' testimony, work papers, and responses to DRA data requests, as well as, visited various plant locations in the San Jose Hills/Glendora district. DRA has carefully considered all of the information made available by SWS in order to fully evaluate the Company's requests and ascertain the necessary plant improvements and additions that will provide ratepayers safe and reliable service and comply with the Commission's Water Action Plan at the least possible cost.

In the San Jose Hills/Glendora district, SWS proposes major plant improvements including painting and recoating existing steel reservoirs, modifying inlet/outlet piping of existing steel reservoirs, replacement of pump and booster stations, replacing an existing concrete reservoir with a new steel reservoir, and constructing new distribution lines.

DRA agrees with SWS' request for some projects; however, DRA makes alternative recommendations regarding several other projects. Discussion regarding DRA's alternative recommendations follows the chart below.

SUBURBAN WATER SYSTEMS						
CAPITAL BUDGET A. 08-01-004						
MAJOR PROJECTS IN SAN JOSE HILLS/GLENDORA						
	2008		TY 2009		TY 2010	
Company Funded Construction Projects	DRA	SWS	DRA	SWS	DRA	SWS
Plant 110 - replace pump station	$2,133,000	$2,231,000				
Plant 147 W-2 - new pump, motor and VFD	$150,000	$240,000				
Plant 505 R-1 paint & coat with piping work (7MG)	$1,220,000	$1,570,000				
Plant 167 R-1 - paint and coat with piping & site work (1.5MG)			$450,000	$1,066,000		
Plant 119 R-1 - demo site and replace tank			$1,300,000	$1,300,000		
Plant 119 - replace pump station			$1,128,000	$1,128,000	$1,372,000	$1,372,000
Install 2,600 LF of 16" DIP in Grand Ave. from San Dimas Wash to Gladstone (850 zone)					$0	$1,000,000
Plant 503 R-1 - paint & coat with piping work (7MG)			$1,240,000	$1,600,000		
Construct 800 LF of 12" PVC Glendora Ave btwn Plt 119 &			$160,000	$160,000		
Install 2,000 LF of 16" DIP in Grand Ave from Gladstone to Armstead Ave (850 Zone)			$0	$800,000		
Total Major Capital Projects for San Jose Hills/Glendora	$3,503,000	$4,041,000	$4,278,000	$6,054,000	$1,372,000	$2,372,000

(a) Plant 110 – Replace Booster Pump Station (2008 Budget - $2,231,000)

SWS' proposal to replace the pump station at Plant 110 includes replacement of the building, pumps, piping, and other site facilities including fencing, electronic gate, security, SCADA, construction of drainage pipe, and paving. According to SWS, the existing pump station is approximately 50 years old and has reached the end of its useful life.

DRA has visited Plant 110 and examined the site and facilities, reviewed SWS' witness testimony and proposed construction budget. While DRA agrees that the pump house, pumps, and piping should be replaced, DRA recommends a different amount of $2,133,000 and recommends that the Commission disallow the following:

- Replacement of the chain link fence;
- Construction of the electronic motor gate; and
- SWS' proposed security measure.

During DRA's field visit, DRA found that Plant 110 is surrounded on three sides by a slatted chain link fence with a block wall on the fourth side. According to SWS, the Company wants to replace 400 feet of chain link fencing that currently faces residential housing with a block wall primarily for aesthetic reasons to provide a more pleasing view to residents whose homes face the plant. It is DRA's position that since the existing fence is in very good condition and is slatted to obstruct the view into the site, there is no justification to replace the fence at ratepayer expense. Therefore, DRA reduced the company's estimate by removing $40,000 plus applicable overhead and contingencies from the company estimated construction budget.

DRA recommends that the Commission also disallow SWS' request for an electronic gate and the proposed security measure at Plant 110. SWS provided no testimony to support its request for the electronic gate or the security measure.

During DRA's field visit, SWS' representative explained to DRA that the electronic gate will allow field crews to open the gate and access the plant without leaving their vehicles. The proposed security measure consists of a magnetic key at the gate and the building that will record employee access to the site and building. While it might be nice for SWS' field crews to be able to open the gate without stepping out of their vehicle, it is of no benefit to the ratepayer that such a luxury be available.

As for SWS' request for the security measure (magnetic keys) to record employee access to the plant and building, SWS has the ability to control access to the plant by controlling and tracking keys to the site and building and requiring all personnel to record or log access to the plant and building. The magnet key provides no security against unauthorized intruders and provides no benefit to ratepayers. DRA reduced SWS' estimated construction budget by removing $20,000 for the electronic gate, $20,000 for security, and all applicable overhead and contingencies.

(b) <u>Plant 147 Pump and Motor Replacement (2008 Budget - $240,000)</u>

SWS proposes to replace an inefficient pump and install a variable frequency drive or VFD. According to SWS, Southern California Edison, SWS' electric provider, will rebate 50 percent of the total cost of replacing the inefficient 450 hp electric motor with more efficient pumping equipment. In addition, replacement of the pump will result in estimated energy savings of 281,565 kWh's annually or $22,525 in purchased energy costs.

DRA agrees that this project will benefit ratepayers by reducing the energy expense of operating the pump. The proposal is also consistent with the Commission's Water Action Plan objective that water utilities reduce energy consumption. However, DRA recommends $150,000 for this project. DRA has adjusted SWS' estimate for installation of the new pump and motor by 50 percent since SWS will receive a rebate from SCE once the project is completed.

According to SWS, the rebate received for replacing the inefficient equipment will be applied to the work order account to offset the capital cost of installing the new more efficient equipment.[4]

Furthermore, DRA discovered that in its work papers, SWS failed to include the projected energy savings in the company's purchased energy expense for the Test Years. Therefore, DRA has included the estimated energy savings of $22,525 in the purchased power expense for the test years and recommends that the Commission adopt DRA's estimate.[5]

2. Plant 505 Paint and Recoat 7MG Tank with Piping Modifications and Site Improvements (2008 Budget - $1,570,000)

SWS proposes to paint and recoat an existing 7 MG tank, modify the piping, construct an electronic motor gate, and add security measures at Plant 505. While DRA agrees that the tank is in need of painting and recoating, DRA disagrees with the full scope of SWS' proposal and recommends a different amount of $1,220,000. Instead, DRA recommends that the Commission disallow the following:

- Construction of the electronic motor gate;
- SWS' proposed security measure; and
- Modification of the inlet and outlet piping.

SWS provided no testimony to support its request for the electronic motor gate or the security measure. SWS' request for the electronic gate provides an unnecessary luxury which does not provide any additional safety to the plant or benefit to ratepayers. Suburban did not provide explanation for the security measure at Plant 505 in its testimony, work papers, proposals, designs or

[4] According to an e-mail from SWS dated March 10, 2008, the SCE energy conservation rebate will be credited to Suburban's Plant 147 work order account to offset the capital cost.

[5] See Chapter 3, Section 7, Purchased Power.

specifications. Because SWS' request was not explained or supported, DRA can only speculate that it plans on adding magnetic keying to record employee access at this location, which is also proposed at Plant 110.

As previously stated, in DRA's discussion of Plant 110, the magnetic key provides no more security than SWS controlling access to keys and requiring all personnel to log or record their access to the plant. In fact, the magnetic key provides no security against unauthorized entry and would therefore be of no benefit to ratepayers. DRA has removed from SWS' proposed construction budget $20,000 for the electronic gate and $15, 000 for the security measure, plus all applicable overhead and contingencies associated with those two items.

SWS' witness, Paul S. Carver, states in his testimony that the inlet and outlet piping on the steel tank must be modified to conform to the requirements of the Department of Public Health ("DPH"). According to Mr. Carver "DPH has started requiring that all water utilities put water into tanks through inlets near the top of the tank and take water from outlets located on the opposite side near the bottom of the tank." Mr. Carver refers to Draft Waterworks Standards, Article 6 Distribution Reservoirs, Section 64585, Paragraph b (4) to support the company's position.

The following is an excerpt from the DPH Draft Waterworks Standards**;**

Article 6. Distribution Reservoirs;

(a) Each distribution reservoir shall meet the following:

(1) Any reservoir coatings or linings shall be installed in accordance with manufacturer's instructions;

(2) Vents and other openings shall be constructed and designed to prevent the entry of rainwater or runoff, and birds, insects, rodents, or other animals;

(3) At least one sampling tap shall be available to enable representative sampling of the water in the reservoir that will be entering the distribution system; the tap shall be protected against freezing, if necessary; and

(4) A reservoir shall not be designed, constructed, or used for any activity that creates a contamination hazard.

(b) The water supplier shall submit to the Department for review the design drawings and specifications for each proposed distribution reservoir prior to its construction. Each new distribution reservoir shall be:

(1) If it is a tank, constructed in accordance with American Water Works Association (AWWA) standards as follows: AWWA D-100-05 (Welded Steel Tanks for Water Storage), D-102-03 (Coating Steel Water-Storage Tanks), D-103-97 (Factory-Coated Bolted Steel Tanks for Water Storage), D-110-04 (Wire- and Strand-Wound, circular, Prestressed Concrete Water Tanks), and D-120-02 (Thermosetting Fiberglass-Reinforced Plastic Tanks);

(2) Constructed of an impervious material that prevents the movement of water into or out of the reservoir;

(3) Covered with

(A) A rigid structural roof made of impervious material that prevents the movement of water or other liquids into or out of the reservoir; or

(B) A floating cover designed, constructed, and maintained in conformance with the AWWA California-Nevada Section's "Reservoir Floating Cover Guidelines" (April 1999), AWWA

Manual M25 (2000), and AWWA D130-02 (Flexible-Membrane Materials for Potable Water Applications.

(4) Equipped with at least on separate inlet and outlet, and designed to minimize short-circuiting and stagnation of water flow through the reservoir.

In order to justify the piping modifications requested, SWS' witness put emphasis on sub-section (b), item (4), above. The witness failed to acknowledge the fact that sub-section (b) lists the requirements for new reservoirs, not existing reservoirs. Furthermore, in November 2006, DPH issued its Initial Statement of Reasons regarding the Draft Waterworks Standards wherein DPH clearly stated, "*The requirements in subsection (a) would apply to all reservoirs, new and existing, since existing reservoirs could be retrofitted at minimal cost, if necessary to comply; those in subsection (b) would apply only to new reservoirs, since it would be costly, onerous and unreasonable to require compliance by existing reservoirs.*"[6]

According to SWS' construction estimate, the piping modifications requested at Plant 505 total $225,000. After adding the company's Engineering & Inspection, Overhead, and Contingency rates, the piping modifications total inflates to approximately $305,000. DRA agrees with DPH that requiring piping retrofit of existing tanks is indeed costly, onerous, and unreasonable. Furthermore, SWS is unable to quantify any amount of improvement in water quality that would result from retrofitting the piping configuration. Therefore, DRA recommends that the Commission disallow SWS' estimated construction

[6] R-14-03 Revision of Waterworks Standards, Initial Statement of Reasons, page 22 of 33, http://www.cdph.ca.gov/.

budget of $1,570,000 and adopt DRA's more reasonable estimate of $1,220,000 for painting and coating the reservoir.

(c) Plant 167 R-1 Paint & Coat 1.5 MG Tank With Piping Modifications and Site Work (2009 Budget - $1,066,000)

SWS proposes to paint and recoat an existing 1.5 MG tank, construct an electronic motor gate, add security measures, modify the inlet and outlet piping and, perform various site grading and paving at Plant 167. DRA disagrees with the full scope of SWS' proposal and recommends a different amount of $450,000. DRA recommends that the Commission disallow the following items included in SWS' project description and budget:

- Construction of the electronic motor gate;
- SWS' proposed security measure;
- Modification of the inlet and outlet piping;
- Site grading, concrete curb, alley gutter, AC pavement; and
- SCADA.

SWS provided no testimony or support for construction of an electronic motor gate, the proposed security measure or the grading, curb, gutter and AC paving. The purpose of constructing an electronic motor gate appears to only serve the purpose of allowing work crews the ability to open the gate without exiting their vehicles. The only security measure described to DRA while visiting the site was the magnetic key system that will only record employee access to the plant. This measure provides no added level of security for the plant against unauthorized access.

SWS' assertion that DPH requires that water reservoirs now have separate inlet and outlet tanks is incorrect. As stated previously, DPH's Draft Waterworks Standard, Article 6 Distribution Reservoirs, Section 64585, Paragraph b (4) applies solely to new reservoirs. Additionally, SWS is unable to quantify any

substantial improvement in water quality by modifying the piping configuration. DPH does not require retrofit of the inlet/outlet piping on existing reservoirs. Therefore, ratepayers should not be burdened with the additional capital cost associated with piping modifications that are not required.

As for SWS' request to install a concrete curb, gutter, grade and pave the site, SWS provided no testimony, justification or support for these additions to the scope of the project to paint and coat the tank. DRA visited Plant 167 and found that the site does not appear to be in need of such measures. The landscape surrounding the tank to the perimeter chain link fence is level and covered with gravel. SWS also failed to provide any testimony, plans, proposals, or support for SCADA at Plant 167.

Based on SWS' lack of testimony, support, or justification for the items above and beyond painting and coating the reservoir, DRA recommends that the Commission disallow SWS' estimated budget of $1,066,000 and adopt DRA's more reasonable estimate of $450,000 for painting and coating the reservoir.

(d) Plant 503 Paint and Recoat 7MG Tank with Piping Modifications and Site Improvements

(2008 Budget - $1,600,000)

SWS proposes to paint and recoat an existing 7 MG tank, modify the inlet and outlet piping, construct an electronic motor gate, and add a security measure at Plant 503. While DRA agrees that the tank is in need of painting and recoating, DRA disagrees with the full scope of SWS' proposal and recommends a different amount of $1,240,000. DRA disagrees with and recommends that the Commission disallow the following:

- Construction of the electronic motor gate;
- SWS' proposed security measure; and

- Modification of the inlet and outlet piping.

SWS provided no testimony to support its request for the electronic motor gate or the security measure. SWS' request for the electronic gate provides an unnecessary luxury. The electronic motor gate will allow work crews to open the gate without exiting their vehicle. Suburban does not explain the proposed security measure at Plant 503 in its testimony, work papers, proposals, designs or specifications. Since SWS failed to provide any support or justification for the proposed security at Plant 503, DRA can only speculate that this request is to add magnetic keying that will record employee access to the plant as similarly requested at Plant 110.

As previously stated, in DRA's discussion of Plant 110, the electronic motor gate and the magnetic key system will not provide any additional security to the plant or prevent unauthorized access above and beyond the security of the existing gate and locks. Neither measure will provide a benefit to ratepayers. DRA has removed from SWS' proposed construction budget $15,000 for the electronic gate and $20, 000 for the security measure, plus all applicable overhead and contingencies associated with those two items

SWS' assertion that DPH requires that water reservoirs now have separate inlet and outlet tanks is incorrect. As stated previously, DPH's Draft Waterworks Standard, Article 6 Distribution Reservoirs, Section 64585, Paragraph b (4) applies solely to new reservoirs. Additionally, SWS is unable to quantify any substantial improvement in water quality by modifying the piping configuration. DPH does not require retrofit of the inlet/outlet piping on existing reservoirs. Therefore, ratepayers should not be burdened with the additional capital costs associated with piping modifications that are not required.

DRA removed the costs and contingencies associated with the unnecessary and unsupported items from SWS' estimated construction budget of $1,600,000

and recommends that the Commission adopt DRA's more reasonable budget for painting and recoating the reservoir of $1,240,000.

(e) Install 2,000 Linear Feet of 16" Pipe in Grand Ave. from Gladstone to Armstead Ave. (2009 Budget - $800,000) and,

(f) Install 2,600 Linear Feet of 16" Pipe in Grand Ave. from San Dimas Wash to Gladstone (2010 Budget - $1,000,000)

Projects (e) and (f) above are phases one and two of the same project to replace existing pipe that according to SWS does not provide sufficient fire flow and is leaky. Additionally, SWS states that the shape of the pipe has changed from round into an ellipse.

DRA recommends that the Commission disallow this project. SWS provided no support for its statements that the existing pipe is deficient in meeting required fire flow or that the condition of the pipe warranted replacement. Furthermore, SWS has no support for its statements that the existing pipe is excessively leaky or has changed shape.

DRA inquired with SWS whether it had received any citation, orders, or other notification from the local fire department, city, or other governing body that the pipeline was deficient in meeting fire flow. SWS indicated that it had no such documentation. SWS further stated that fire flow measurements taken on the system shows that it is only able to deliver between 1,600 and 2,600 gpm depending on the location. However, it is clear that the pipeline has existed for several years and was likely installed meeting the fire flow requirements at the time it was built. Any subsequent increase in the required fire flow is not sufficient reason to require replacement of the line strictly to increase measurable fire flow at ratepayer expense. According to General Order 103, Section VIII, Fire Protection Standards, paragraph 1. (b) Replacement of Mains, *"The utility shall not be responsible for modifying or replacing at its expense an existing main, which is otherwise adequate, to provide increased fire flow."*

In its application, SWS' witness states that the existing line is also leaky and has changed from round in shape to an ellipse. To verify whether the condition of the pipe warranted replacement of the line, DRA requested that the Company provide the number of leaks found in the pipe during the most recent five-year period as well as the total dollars spent to repair leaks. SWS responded that the number of leaks and leak repair cost information was not available. Based on this response, DRA is left wondering whether there have been any leaks at all or whether the Company is simply negligent in recording such vital data necessary to identify and support infrastructure replacement needs.

When DRA later asked SWS whether any outside engineering firm had examined the existing pipeline to determine the shape and condition of the pipeline, SWS responded that information about the shape of the pipe was determined by SWS' leak crews who have exposed the old pipe in several locations for repairs. This statement contradicts SWS' earlier response that it had no information available about the number of leaks or repairs.

DRA's recommends that the Commission disallow this project because SWS' justification for replacement lacks support. The absence of an engineering report concerning the condition of the line and SWS' statement about the absence of information concerning prior leaks and repairs contradicts SWS' statement that leak crews examined the line to discover that the shape had changed. SWS has not met its burden of proof that this pipeline should be replaced.

3) Major Plant Improvements - Whittier/La Mirada District

The following chart lists the major plant projects SWS requests for 2008, 2009, and 2010. DRA has reviewed SWS' testimony, work papers, and responses to DRA, including visiting various plant locations in the Whittier/La Mirada district. In the Whittier/La Mirada district, SWS proposes major plant improvements including painting, recoating, and modifying the inlet/outlet piping of an existing steel reservoir, replacement of a pump station, replacing grey

plastic pipes, installing 3500 feet of 8" line and 4300 feet of 16" line, relocating an existing MWD vault, constructing a chemical storage building and a new 2MG tank, and equipping a new well.

DRA agrees with SWS' request for some projects and provides alternative recommendations regarding several other projects. Discussion regarding DRA's alternative recommendations follows the chart below.

MAJOR PROJECTS IN WHITTIER/LA MIRADA						
Company Funded Projects	2008		2009		2010	
	SWS	DRA	SWS	DRA	SWS	DRA
La Mirada – Replace Grey Plastic Pipes	$259,000	$0	$441,000	$0	$1,228,000	$0
MWD – Relocation	$1,200,000	$0				
Plant 201 – Equip Well W-10	$1,300,000	$1,119,000				
Plant 236 R-1 Paint & Coat with Piping Modification & Sitework	$1,304,000	$576,000				
Plant 410 – Construct Chemical Storage Building	$170,000	$170,000				
Install 4,300 LF of 16" DIP in Valley View			$1,673,000	$1,673,00		
Plant 428 – Construct New 2MG Tank					$1,787,000	$0
Zone 600 & 620 – Install 3,500 LF of 8" PVC in Villa Verde, Youngwood, & Condessa					$872,000	$0
Plant 205 – Replace Pump Station					$1,900,000	$1,816,000
Total Major Capital Projects for Whittier/La Mirada	**$4,233,000**	**$1,865,000**	**$2,114,000**	**$1,673,000**	**$5,787,000**	**$1,816,000**

a. Grey Plastic Pipe Replacement Program (2008, 2009, & 2010 Budget)

For 2008, 2009, and 2010, SWS requests $259,000, $441,000, and $1,228,000, respectively, for its grey plastic pipe replacement program. SWS claims that the pipes are old and the company "is experiencing an increase in the number of repairs that must be made to these pipes." DRA requested information on the number of leaks and repair for the grey plastic pipes SWS experienced in the last five years. In its response, SWS indicated that the Company did not

"maintain records for grey plastic pipelines" and the Company "did not record any leak repairs by pipe category."

Without keeping records on leaks and repairs for the grey plastic pipe, DRA questions how SWS was able to determine that it "is experiencing an increase number of repairs" for these pipes and how it can prioritize the urgent need to replace these pipelines over other pipelines. Therefore, DRA recommends disallowing the cost of replacing the grey plastic pipe because SWS failed to substantiate its claim

b. <u>MWD Vault - Relocation (2008 Budget - $1,304,000)</u>

SWS proposes to relocate an existing Metropolitan Water District (MWD) vault from the street to a nearby sidewalk. The MWD vault is located on La Mirada Boulevard at the intersection with Imperial Highway, in the City of La Mirada. The vault houses flow control and metering for a tie-in with MWD, providing water to the 335 and 400 Zones. The minimum data requirement ("MDR") responses provided the reasons for relocating this vault as: 1) To get it out of the street and 2) To update the system with flow meters so SWS "can accurately determine the flow going to each district." During the field trip, SWS staff also indicated that the vault is on the verge of collapsing due to the weight of traffic on La Mirada Blvd.

SWS claims that the current location of the vault makes it unsafe for its employees to enter and exit the vault for maintenance purposes. However, upon further investigation, DRA has learned that SWS' safety issue is neither unique nor uncommon. Most utilities, such as Southern California Edison, The Gas Company, and telephone companies have many of their service vaults located in the middle of the street. These utilities have been able to manage and maintain excellent record for working in underground vaults that are located in the middle of the street so long as they follow proper safety procedure as prescribed by Cal-OSHA.

In addition to the safety issue, SWS claims that the servicing of the valve inside the vault would interfere with the flow of traffic on La Mirada Blvd. However, SWS has failed to justify its claim because it was not able to provide to DRA the vault's maintenance record and the frequency that it needs to access the vault. Without information about the frequency and the duration of working in the vault, DRA is unable to determine cost vs. benefit of this relocation project.

SWS also claims that vault is on the verge of collapsing in that the structural integrity is deteriorating. In its response to DRA's data request, SWS provided pictures taken in 1997 showing the interior condition of the vault. However, the Company did not provide any recent pictures that could show the current conditions of the vault or changes in conditions over the last ten years. In fact, the Company has continued to place this vault in service without experiencing any structural problems during this time span. Finally, SWS provided no engineering report that would provide an assessment of the structural integrity of the vault.

SWS' final claim that the relocation of the vault would facilitate the installation of flow meters is without merit. There is little relevancy between the meter installation and the vault relocation. SWS is free to install its flow meter regardless of the vault location. Here, SWS once again fails to justify its claim.

For reasons stated above, DRA recommends the disallowance of this project.

c. <u>Plant 201 Well W-10 – Equipping Well (2008 Budget - $1,300,000)</u>

SWS requests $1,300,000 to complete the construction of Well W-10 by equipping it with a new pump, a natural gas engine, SCADA, associated pipings, and a security system. Although DRA has no objection to the project, DRA makes an adjustment for the cost of the security system in the amount of $15,000 and a calculation error for the cost of the 16" discharge pipe. In its workpapers, SWS estimates that 740 feet of 16" discharge pipe is needed at an estimated cost of $85

per feet. The total cost of the 16" pipe should be $62,900, but SWS' workpapers show $182,900. To correct this error, DRA reduced this amount by $120,000 (difference between $182,900 and $62,900).

For the security measure, DRA disagrees with SWS on the need for this request. The proposed security measure consists of a magnetic key at the gate and the building to record an employee's access. As stated in earlier sections of this Chapter, the magnetic key does not provide any additional deterrent to unauthorized intruders and provides no benefit to ratepayers. The $15,000 for this request should be disallowed.

DRA adjusts SWS' estimated construction budget by removing $15,000 for security, $120,000 for the calculation error, and all applicable overhead and contingencies.

d. Plant 236 - Paint and Recoat 2 MG Tank with Piping Modifications and Site Improvements (2008 Budget - $1,304,000)

SWS requests $1,304,000 in 2008 to paint and recoat an existing 2-MG tank, modify the piping, construct an electric gate, add security measures, and provide drainage features around the tank. Although DRA agrees that the tank needs to be painted and recoated, it disagrees with the full scope of SWS' proposal and recommends a different amount of $576,000. DRA recommends that the Commission disallow the following items from SWS' request at Plant 236:

- Modification of the inlet and outlet piping;
- Construction of an electronic motor gate;
- Security measure; and
- Site improvements.

For reasons discussed in great detail under Sections 2 (c) and (d) for Plant 505 and Plant 167 R-1, respectively, SWS' proposal to modify the inlet and outlet piping in order to comply with CDPH's requirement is misleading because the requirement does not apply to SWS' existing tanks. The electronic motor gate

would only benefit SWS' employees in not having to exit their vehicle to gain entrance into the plant. SWS' security measure in the form of a magnetic key system does not provide an added security against unauthorized access. DRA visited Plant 236 and found the site to be secured by a chain-link fence with the site graded and paved for proper drainage. It is not necessary for SWS to replace the existing fence and re-pave the site when these features appear to be adequate.

Based on SWS' lack of testimony, support, or justification for the items which are beyond painting and recoating the tank, DRA recommends that the Commission disallow SWS' estimated budget of $1,304,000 and adopt DRA's more reasonable estimate of $576,000 for painting and recoating the tank at Plant 236.

e. <u>Plant 428 – Construction of 2 MG Reservoir (2010 Budget – $1,787,000)</u>

In 2004, a new housing development was constructed in the La Mirada area known as Hawks Point, which is located within SWS' WLM 450 zone. In the same year, SWS constructed a 2-MG tank to serve the WLM 450 zone. In this GRC, SWS proposes to construct a second 2 MG tank at the same location to serve the same area. Mr. Paul Carver's testimony stated that the second 2-MG tank is needed "to properly serve the existing customers with both maximum day demands and fire flows."

DRA reviewed SWS' Master Plan to determine the reasonableness of this project. Table 3-2 of the Master Plan indicated that the land use for Zone 450 is primarily residential of medium and high density, with no commercial or industrial uses. Table 4-4 indicated that the fire flow requirements for residential properties range between 1,250gpm to 1,500gpm, which is typical of the land use in Zone 450. A fire flow of 5,000gpm is applicable for multiple residential, apartment, high rise, commercial, or industrial properties with over 70,000 square feet of land. During DRA's field trip on February 15, 2008, staff did not observe any multiple residential properties with over 70,000sf of land within Zone 450. In

Table 7-5 of the Master Plan, SWS uses 1,250gpm as the fire flow rate to calculate the storage needs of other pressure zones that are primarily residential uses.

SWS only uses a fire flow rate of 5,000gpm for those pressure zones that contain commercial and industrial land uses. With Zone 450 being used exclusively for residential land use, SWS' calculation of its storage need based on 5,000 gpm fire flow rate is inconsistent with its practice for other residential zones. Thus, DRA believes the use of 1,250gpm as the fire flow requirement is more appropriate for Zone 450.

Besides having enough fire flow in the 450 zone, Page 7-25 of the Master Plan further states that "the 450 Zone has been planned and constructed so that the booster pumps can meet both the maximum day demands and a large fire flow." This statement validates the point that water supply from the booster pumps can meet both the maximum day demands and fire flow and a 2-MG tank provides storage. SWS, therefore does not need to install a second tank.

Finally, since 2004 SWS has been providing water adequately in the 450 Zone following the completion of the new housing development at Hawks Pointe with just one tank. SWS did not report operational problems regarding the lack of storage capacity. The area is well developed and is unlikely that the population will increase in the foreseeable future.

Based on reasons discussed above, DRA recommends the installation of a second tank at Plant 428 be disallowed.

f. <u>Zones 600 & 620 – Construct 3,500 LF of 8-inch PVC in Villa Verde, Youngwood, & Condesa (2010 Budget - $872,000)</u>

SWS requests $872,000 in 2010 to construct an 8-inch line to combine Zones 600 and 620 in Whittier. Currently, Zone 600 is being supplied with water from a water tank at Plant 236 and pump stations at Plant 219 and Plant 235. Zone 620 is served by a water tank at Plant 221 and a pump station at Plant 218. Each zone has at least two sources of water supply to serve its customers. SWS' Master Plan recommends combining the two zones, which would allow SWS to take the

booster pump stations at Plant 219 and 218 out of service because they are no longer needed.

DRA performed a cost benefit analysis on this project and found that it makes little economic sense. The average annual operation and maintenance cost for Plants 219 and 218 for the last five years is approximately $16,000, a relatively small amount compared to SWS' request of $872,000 as the capital expenditure for this project. Simple math shows that it would take 54.5 years for the project to reach its break even point based on the annual savings of $16,000. As such, this project is not cost effective for SWS' ratepayers.

To further justify its need for this project, SWS responded to DRA's data request (PXS-05) and stated that the purpose for combining the two zones in this project is not economic. Suburban acknowledges that there will not be cost savings associated with this project. SWS cited, however, that combining the zones would make its system more reliable by having the combined zones served by two reservoirs in case one of the reservoirs needs to be taken off-line for maintenance. SWS states that the current system of relying on the pump stations during reservoir maintenance is not reliable because the Company often experiences problems with the pumps at Plant 218.

Upon further evaluation, DRA has found that this issue would only affect Zone 620 when the reservoir is being taken off-line for maintenance. SWS did not state that the pumps are not operational, but cited only "reliability" problems. SWS also provided little evidence, such as maintenance records that the reservoirs are routinely being taken off-line for maintenance or the pumps are not reliable. In fact, there are other viable options, such as fixing or replacement of the pump, or getting another back-up source of water for Zone 620 that SWS could consider before proceeding with this expensive project.

For the reasons stated above, DRA recommends the Commission to disallow SWS' request for this project.

g. Plant 205 - Replace Pump Station (2010 Budget - $1,900,000)

SWS requests $1,900,000 in 2010 to replace the pump station structure, pumps, and its associated pipings, fencing, electronic gate, security, SCADA, and paving at Plant 205. Although DRA agrees that the pump station structure, pumps, and pipings should be replaced, DRA recommends a different amount of $1,816,000 for this project and recommends that the following items be disallowed:

- Construction of an electronic motor gate;
- Security measure; and
- Replacement of chain link fence.

The electronic motor gate makes it convenient for SWS employees entering the plant without getting out of their vehicles. SWS' security measure, however, in the form of a magnetic key system does not provide an added security against unauthorized access. DRA visited Plant 205 and found the site to be secured by a chain-link fence. It is not necessary for SWS to replace the existing fence.

Based on SWS' lack of testimony, support, or justification for the items which are beyond replacing the pump house, pumps, and its associated pipings, DRA recommends that the Commission disallow SWS' estimated budget of $1,900,000 and adopt DRA's more reasonable estimate of $1,816,000 for Plant 205.

4) Plant Additions not Previously Authorized

For 2005 and 2006, SWS listed 12 "plant improvements built in last test years but not authorized" in its Minimum Data Requirement (II. D. 6, pg10). For each of these projects, DRA performed a detailed review to determine that its need is prudent and the cost is reasonable. The following table shows description and recorded cost for each of these plant improvements:

No.	Description	2005 recorded	2006 recorded
1	San Jose Hills RASF Complete Block Wall and Gates	$17,071	
2	Plant 505	$3,752	
3	Whittier La Mirada New Office Tenant Improvements	$24,623	$160,059
4	Plant 507 Curb Replacement		$24,956
5	Recycled Water Pump Station – West Covina Golf Course		$11,971
6	Recycled Water Pump Station – (900 RW Zone)		$11,099
7	2.0MG Recycled Water Reservoir		$20,738
8	Sunset Pipeline		$1,847,206
9	Emergency Pipeline Replacement on Mentz		$79,813
10	Emergency Pipeline Replacement in Shadow Oak Park		$24,783
11	SWS Sportsplex Piping		$74,393
12	Emergency Valve on Low Head Pipe at California and Fairgrove		$18,952

(a) <u>San Jose Hills RASF Complete Block Wall and Gates</u>

In its response to DRA's Data Request BYU-2, SWS states that it needs to build a block wall instead of the less expensive option of a standard chain link fence. SWS stated that the block wall enhances the aesthetic appeal of the plant and is a condition to obtain permit from the City of West Covina. While DRA agrees the construction of the block wall, it finds that the installation of an automatic gate as excessive and unnecessary. DRA recommends that the cost of $15,000 for this automatic gate be excluded from the 2005 recorded Plant.

DRA's estimate of the automatic gate cost is based on the information provided by SWS. In its response to DRA's Data Request PXS 02, SWS provided that each automatic gate installation would cost about $15,000 to $20,000. As such, DRA reduced the total cost of the project by $15,000 and allowed only $2,701 ($17,701-15,000=$2,701) in the 2005 recorded Plant.

(b) <u>Plant 505</u>

DRA is not disputing the justification of this plant. DRA , however, believes that SWS has incorrectly listed this improvement under "plant

improvements built in last test years but not authorized." In its response to DRA Data Request BYU-2, SWS indicates this project is currently under construction.

(c) <u>Whittier La Mirada New Office Tenant Improvement</u>

In its data request response to DRA's BYU-2, SWS claims that the previous Whittier La Mirada office was becoming increasingly crowded and was not large enough to accommodate its operations personnel. SWS also claims that the old office was located in an industrial area of La Mirada and was inconvenient for customers. For these reasons, SWS moved its entire Whittier/ La Mirada operation to a new rental office space located inside the La Mirada Mall in 2006. SWS also demolished the old office building which they had owned and created a new parking lot to accommodate the parking need of its field personnel.

During its site visit, DRA discovered that the new office is about twice the size of the old office (6,000 square feet vs 3,000 square feet). The new office has been remodeled extensively and has spaces for field crew accommodations, such as locker rooms, shower, and lunch room.

DRA believes SWS' decision to move its operation from its own building into a leased office that is twice its size as imprudent and excessive. SWS provided little support that the space of its old office was inadequate and that its service to its customers was being adversely affected. There were no customer complaints that indicated its prior location was inaccessible and was inconvenient to the customers. In fact, SWS' old office has been at the same location for 18 years and provided satisfactorily customer service during that time span.

DRA has learned that since the last GRC in 2002, there has been no increase in the number of personnel in the Whittier/La Mirada office. SWS' claim that it needs additional space to accommodate its growing staff level is unfound.

SWS's final justification for its relocation to the new location is that the existing building is too old. DRA asserts that it would be much more cost effective for SWS to first consider renovating its existing old building to make it a

more efficient building. This option takes advantage of the fact that SWS owns this building. The cost of renovation for the old building is a one time, non-recurring capital expenditure and is a more cost effective way when compared to leasing a building which requires rental payment and can be subjected to continuous rent increase during the lease term. Only after such option has been considered should SWS consider the lease of another office space to meet its needs.

Based on above discussion, DRA believes SWS' move to the new office is imprudent and excessive. Accordingly, DRA recommends that the capital expenditure for the new office building be reduced by $92,341 or 50% of SWS' request.

(d) <u>Sunset Pipeline</u>

SWS spent $1,847,206 in 2006 to build a pipeline that connects the northern end of the pressure zone with the area currently served by Plant 147. In its response to DRA's Data Request BYU-2, SWS decided to construct the Sunset Pipeline based on the water quality data that there was a contamination risk at Plant 147 well and concerned that the well might be forced to shut down when the contaminants exceed the maximum contaminant levels ("MCL").

DRA disagrees with SWS' justification for this pipeline. In its evaluation of this project, DRA has found that the level of contamination detected in Plant 147 Well did not exceed the MCLs and have instead decreased over the past four years. The California Department of Public Health ("DPH") confirmed that the level of contaminants detected in Well 147 W-3 did not exceed the MCLs. DPH indicated that the department would only require SWS to shut the well down immediately when levels of contaminants such as those detected at Well 147 W-3 exceed the MCLs.

The DPH's protocol is to monitor the contaminant levels for four quarters, to establish a trend of the contaminant level and consider mitigation measures.

DPH did not indicate that there was a need to monitor the contaminant levels at this well or to consider mitigation measures because the MCLs were not exceeded. As such, SWS' decision to construct the Sunset pipeline was premature and might be unnecessary.

In this GRC, SWS requests $390,000 for plant improvement for Plant 147, the same site where it has concerns about its imminent shut-down. DRA finds it perplexing on company's need to make improvements to a "questionable plant" it has already built the Sunset Pipeline as a substitution for Plant 147 well.

Based on its findings, DRA does not believe SWS has performed a cost benefit analysis or considered other alternative options before starting this project as required by the New Rate Case Plan, D.07-05-062, which requires that *"all significant capital additions shall be identified and justified, and must include need analysis, cost comparison and evaluation, conceptual designs, and overall budget."* SWS failed to meet these requirements.

Finally, SWS informed DRA that the Company's management authorized the project through "verbal" authorization. SWS was unable to provide any documentation or meeting minutes showing the decision making process for the Sunset Pipeline.

DRA recommends the cost of $1,847,206 be removed from the recorded 2006 Plant for the reasons stated above. If at that future time SWS is required by DPH to shut down the Plant 147 well, it may then seek recovery of the cost of this pipeline

CHAPTER 5: DEPRECIATION AND AMORTIZATION

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations regarding depreciation. The following table shows the weighted average accumulated depreciation for Test Years 2009 and 2010.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA and SWS' estimates are due to differences in SWS' requested plant additions and DRA recommended plant additions for the Test Years. SWS requests $48,835,440 in Test Year 2009 and $50,228,064 in 2010, whereas DRA estimates $50,188,694 and $52,766,954 in Test Years 2009 and 2010, respectively. DRA's average accumulated depreciation is higher in the Test Years due primarily to differences in plant additions and fewer plant retirements.

C. DISCUSSION

SWS' depreciation estimate was prepared according to the straight line remaining life methodology in accordance with Standard Practice U-4, using data related to utility plant accounts and age of the plant and accumulated depreciation as of December 31, 2006. The Company's witness adjusted the data with respect to depreciation of utility plant obtained through the purchase of the water system of the City of West Covina in 2000. For this rate case, DRA accepts the Company's methodology. The following table shows the accumulated depreciation as proposed by DRA and SWS.

DEPRECIATION						
Dollars in Thousands						
Item	2008		TEST YEAR 2009		TEST YEAR 2010	
	DRA	SWS	DRA	SWS	DRA	SWS
Accumulated Depreciation (BOY)	47,897.2	47,940.0	49,170.6	48,193.4	51,206.7	49,477.5
Add:						
Depreciation Accural	4692.4	4759.6	5,665.1	5,794.0	5,814.4	6,010.1
Salvage	9.8	9.8	9.8	9.8	9.8	9.8
Less:						
Retirements	2,570.4	3,657.5	2,780.4	3,661.4	1,828.8	3,660.3
Cost of Removal Adjustment	858.4	858.4	858.4	858.4	858.4	858.4
Depreciation Reserve (EOY)	49,170.6	48,193.4	51,206.7	49,477.4	54,343.7	50,978.7
Average Accumulated Depreciation	48,533.9	49,066.7	50,188.7	48,835.4	52,775.2	50,228.1

CHAPTER 6: RATE BASE

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on rate base. The following table compares DRA and SWS' estimate for rate base for Test Years 2009 and 2010.

B. SUMMARY OF RECOMMENDATIONS

SWS' estimated weighted average rate base for 2009 is $94,106,587 and $100,277,397 for Test Year 2010. DRA recommends an average rate base of $85,263,643 in Test Year 2009 and $87,874,355 in Test Year 2010. Differences in DRA and SWS' estimates are due to differences in plant in service at the beginning of the year 2007, plant additions for 2008, 2009, and 2010, depreciation, and working cash.

C. DISCUSSION

1) Utility Plant in Service BOY 2007

For the beginning of the year 2007, SWS reports $149,122,535. DRA reduced the Utility Plant in Service for the beginning of the year 2007 to $147,169,029. DRA's adjustments made to Utility Plant in Service are as follows:

- $14,300 – San Jose Hills RASF electronic motor gate
- $92,000 – Whittier office tenant improvements
- $1,847,206 – Sunset Pipeline

As discussed in Chapter 4, Section 4, DRA determined that these projects, constructed in 2005 and 2006, were excessive or unnecessary. Therefore, DRA recommends that the amounts associated with those unauthorized improvements be removed from the rate base.

2) Plant Additions for 2008, Test Years 2009 and 2010

DRA's adjustment to SWS' proposed plant additions are discussed in detail in Chapter 4.

3) Depreciation

As discussed in Chapter 5, differences in depreciation are due to differences in SWS' requested capital budget and DRA's recommended capital budget.

4) Working Cash

SWS requests $1,782,010 and $1,821,491 for Test years 2009 and 2010, whereas DRA recommends a negative Working Cash amount of ($908,530) and ($749,447) for Test Years 2009 and 2010 respectively. Differences in Working Cash are due to differences in estimated expense items as discussed in Chapter 3, and the calculation of Expense Lead/Lag Days.

DRA calculates 42.0 expense lag days for Test Year 2009 and 40.6 expense lag days for Test Year 2010, whereas SWS calculated 21.5 expense lag days for 2009, and 21.6 expense lag days for 2010. Both DRA and SWS uses Standard Practice U-16 to derive estimated working cash. The difference in DRA and SWS' results are due to differences in estimated operating expenses and the fact that DRA calculated a slightly longer expense lag for Labor.

5) Labor

In SWS' Lead/Lag study, SWS incorrectly counted 10 lag days for Labor whereas, DRA counted 12 lag days. Standard Practice U-16 specifies that for company labor, the number of lag days is the time from the midpoint of the pay period to the date of payment. SWS' calculation for Labor used a representative pay period beginning 7/2/07 ending 7/15/07, and a payment date of 7/20/07. The middle of the pay period is approximately 7/8/07. The number of days from 7/8/07 to the payment date 7/20/7 is 12 days not 10 as calculated by SWS. This difference, along with differences in estimated operating expenses, resulted in the

difference in working cash determined by SWS and DRA. DRA recommends that the Commission adopt its methodology and reject SWS' because DRA's calculation is more accurate according to the Standard Practice U-16. The table below illustrates DRA's average estimated rate base compared with SWS' average estimated rate base.

6) Construction Work In Progress (CWIP)

In its data request responses to DRA's BYU-1, SWS listed 17 projects that are currently in CWIP. Table below summarizes SWS' responses:

Project	WO #	Costs to Date	Const Schedule	First Year in Design	No. of Yrs in Design	Authorization
"D" Line	02-4116	$28,735	Not Scheduled	2002	6	Authorized
Glendora WTM – LA Public Works	04-1102	$18,379	Pending	2004	4	Authorization Requested
New Booster Pump Station at Plant 110	05-1900	$89,447	2008	2005	3	Authorized
Plant 167 Tank Painting and Coating and Site Work	05-1901	$7,987	2009	2005	3	Authorized
Plant 128 New Water Tank	05-1902	$109	2012	2005	3	Authorized
Plant 505	05-1903	$18,331	2008	2005	3	Authorization Requested
Recycled Water Pump Station – West Covina Golf Course	06-1900	$11,971	Pending	2006	2	Authorization Requested
Recycled Water Pump Station – (900RW Zone)	06-1901	$11,099	Pending	2006	2	Authorization Requested
2.0 MG Recycled Water Reservoir	06-1903	$20,178	Pending	2006	2	Authorization Requested
Valley View and Stage Grade Separation	06-4900	$19,572	2009	2007	1	Authorization Requested
Plant 119 Reservoir Replacement	07-1901	$4,583	2009	2007	1	Authorization Requested
Plant 140 W-5 Packer Project	07-1902	$15,895	Pending	2007	1	Authorization Requested
Plant 236 Reservoir Rehabilitation	07-4902	$32,679	2008	2007	1	Authorization Requested
Pipeline Replacement in La Calma	07-4904	$4,438	Pending	2007	1	Authorized
Pipeline Replacement in Laurel	07-4905	$4,401	Pending	2007	1	Authorized
Pipeline Replacement in Washington Avenue	07-4906	$16,571	Pending	2007	1	Authorized
Replace MWD Vaults in Imperial Highway	07-4907	$8,338	2008	2007	1	Authorized

Total: **$313,273**

Most projects in the water industry are relatively small and normally are completed within one to two years. In looking at the projects in the CWIP account, DRA noted that several of these projects have been in the account for sometime, such as the "D" Line Project (WO 02-4116) and Glendora WTM – LA Public Works Project (WO 04-1102). As such, DRA recommends that these projects should either be closed out or be removed from the CWIP account.

WEIGHT AVERAGE DEPRECIATED RATEBASE				
Item	Test Year 2009		Test Year 2010	
	DRA	SWS	DRA	SWS
	(Dollars in Thousands)			
Average Utility Plant in Service	162,231.4	167,021.8	166,511.3	173,820.5
Average Construction Work In Progress	4,579.0	4,579.0	4,579.0	4,579.0
Average Materials and Supplies	347.9	347.9	355.4	355.4
Working Cash	-908.5	1,782.0	-749.4	1,821.5
Total Additions to Rate Base	166,249.8	173,730.7	170,696.3	180,576.4
Less Deduction from Rate Base:				
Reserve for Depreciation	50,188.7	48,835.4	52,775.2	50,228.1
Advances for Construction	5,737.2	5,737.2	5,611.3	5,611.3
CIAC	14,681.0	14,681.0	14,044.8	14,044.8
Unamortized Investment Tax Credits	388.2	388.2	348.3	348.3
Accumulated Deferred Taxes, Taxable Advances for Construction	-131.5	-131.5	-125.4	-125.4
Accumulated Deferred Taxes, Taxable Contributions in Aid of Construction	-70.8	-70.8	-35.7	-35.7
Unamortized Deferred Revenue, Taxable C.I.A.C.	53.0	53.0	42.5	42.5
Pension Reserve	0.0	0.0	0.0	0.0
Accumulated Deferred Income Taxes Depreciation Timing Differences	10,140.4	10,131.7	10,160.9	10,185.2
Accum. Deferred Income Taxes - Pension Reserve				
Pension Reserve	0.0	0.0	0.0	0.0
Total Deduction from Rate Base	80,986.2	79,624.2	82,821.9	80,299.1
Total Average Rate Base	85,263.6	94,106.5	87,874.4	100,277.3

CHAPTER 7: TAXES

A. INTRODUCTION

This Chapter sets forth the analysis and recommendations of DRA regarding taxes other than income and income taxes. Tables 7-1 and 7-2 show DRA's and SWS' estimates of taxes other than income and income taxes for Test Year 2009.

B. SUMMARY OF RECOMMENDATION

DRA estimates higher income taxes for both State and Federal Income Taxes as shown in Tables 7-1. The difference between SWS' and DRA's estimates is due to different estimates in revenue requirement, expenses, rate base and other tax issues, such as the Domestic Production Activities Deduction ("DPAD").

C. DISCUSSION

1) Ad Valorem Tax (Property Tax)

DRA recommends the requested amount be reduced by $33,616 to $927,393 for ad valorem taxes in the Test Year. SWS requests $961,009 for ad valorem taxes. DRA's reduction is due to differences in the estimate of capital projects. DRA's Plant witness discusses these points in Chapter 4 of this Report.

2) Payroll Taxes

Payroll taxes include Social Security tax, Federal Insurance Contribution Act ("FICA") tax consisting of Old Age Benefits and Medicare, Federal Unemployment Tax Assessment ("FUTA"), and State Unemployment Tax Assessment ("SUTA"). DRA recommends the Commission reduce the requested amount by $184,183 to $439,961 for payroll taxes in the Test Year because DRA recommends a lower payroll expense. SWS requested $624,144 for payroll taxes.

3) State Tax Depreciation

DRA recommends the requested amount be reduced by $128,951 to $4,975,587 for State Tax Depreciation in the Test Year. SWS requests $5,104,538 for State Tax Depreciation. DRA's reduction is due to differences in the estimate of depreciation expenses. DRA's Plant witness in Chapter 5 of this Report discusses this issue.

4) Interest Expense

DRA's recommendation for interest expense is the product of the average rate base provided and discussed by DRA's Plant witness earlier in this Report and the weighted cost of long term debt.

5) Income Taxes

The estimates for federal and state income taxes are different due to the different estimate amounts for revenues, expenses, and rate base in the Test Year. The Company and DRA use a tax rate of 8.84% to calculate the state income tax. The Company and DRA use a tax rate of 35% to calculate the federal income tax.

6) Domestic Production Activities Deduction ("DPAD")

D.06-08-017 adopted the Settlement Agreement for SWS last General Rate Case (A.05-08-034). SWS agreed to record any future tax benefits associated with the American Job Creation Act of 2004 or it is now called Domestic Production Activities Deduction ("DPAD") in a memorandum account, the balance of which will be refunded to the ratepayers. See Settlement Agreement, Page 30, Paragraph 9.3. DRA's Audit witness in this Report will address this compliance issue.

DRA applies $127,127 as a Domestic Production Activities Deduction tax benefit to reduce the amount of federal taxable income in the Test Year. DRA's Audit witness in this report provides this deduction amount.

D. CONCLUSION

DRA recommends the Commission to adopt its estimates for Taxes Other Than Income and Income Taxes for Test Year 2009.

TABLE 7-1

SUBURBAN WATER SYSTEMS

TAXES OTHER THAN INCOME (Test Year 2009)

Item	PRESENT RATES DRA Analysis (A)	PRESENT RATES Utility Estimated (B)
	(Dollars in Thousands)	
Total City and County Ad Valorem Taxes	927.4	961.0
Payroll Taxes:		
FICA Taxes- OASDI	352.7	485.1
FICA Taxes- HI	82.5	113.5
FUI Taxes	4.8	9.1
SUI Taxes	20.2	38.7
Employment Training Fund(E.T.F) Taxes	0.0	0.0
Subtotal FICA, FUI, SUI, and ETF Taxes	460.2	646.4
Payroll Taxes Capitalized	-20.2	-22.2
Total Taxes Other Than Income	1,367.4	1,585.2

TABLE 7-2

SUBURBAN WATER SYSTEMS

Income Tax
Test year 2009

Item	DRA Present Rates	Utility Present Rates	DRA Recommended Rates	Utility Recommended Rates
	(A)	(B)	(E)	(F)
	(Dollars in Thousands)			
Operating Revenues:				
Water Service Revenue	50,271.0	50,247.1		57,067.6
PUC Reimbursement Fee	0.0	753.4		856.0
Other Water Revenues	508.5	187.8		187.8
Amortization of deferred Revenues	13.5	13.5		13.5
Total Taxable Operating Revenues	50,793.0	51,201.8	47,110.0	58,124.9
Expenses:				
Operating Expenses(less franchise, uncollectibles, PUC Reimb Fee)	31,779.1	37,702.8	31,779.1	37,702.8
CR Reimbursement	(28.4)	(27.8)	(28.4)	(27.8)
Franchise Expense	653.5	653.2	653.5	740.5
Uncollectibles	95.5	95.5	95.5	108.4
PUC Reimbursement Fee	0.0	753.4	0.0	856.0
Tax Depreciation, State	4,975.6	5,104.5	4,975.6	5,108.6
Taxes Other than Income	1,367.4	1,585.2	1,367.4	1,585.2
Interest Expense	2,583.5	2,851.4	2,583.5	2,851.4
Subtotal Deductions	41,426.2	48,718.2	41,426.2	48,925.1
CCFT Taxable Income	9,366.8	2,483.6	5,683.8	9,199.8
CCFT Tax (8.84%)	828.0	219.6	502.5	813.3
Plus Defer Tax Exp, Taxable Contri.	3.1	3.1	3.1	3.1
Total CCFT	831.1	222.7	505.6	816.4
Federal Income Tax:				
CCFT Taxable Income	9,366.8	2,483.6	5,683.8	9,199.8
Plus Addt'l Tax Depreciation	4.1	4.1	4.1	4.1
Less Prior Year CCFT	4,485.1	368.9	4,485.1	368.9
Less Amer. Job Creation Act of 2004	127.1	0.0	127.1	0.0
FIT Taxable Income	4,758.7	2,118.8	1,075.7	8,835.0
FIT Tax (35%)	1,665.5	741.6	376.5	3,092.3
Less Investment Tax Credit	0.0	0.0	0.0	0.0
Total Income Tax Expense:	2,496.7	961.1	878.9	3,905.5

CHAPTER 8: RATE DESIGN

This chapter sets forth the analysis of DRA on the rate design. SWS currently provides water service to its customers under the following tariffs:

SCHEDULE NO. SJ-1, SAN JOSE-HILLS SERVICE AREA GENERAL METERED SERVICE

SCHEDULE NO. WLM-1, WHITTIER/LA MIRADA SERVICE AREA GENERAL METERED SERVICE

SCHEDULE NO. LA-4, PRIVATE FIRE PROTECTION SERVICE

SCHEDULE NO. LA-4A, FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

SCHEDULE NO. UF, SURCHARGE TO FUND PUBLIC UTILITIES COMMISSION REIMBURSEMENT FEE

SWS and DRA filed a Settlement Agreement on April 24, 2007 on Water Rate Adjustment Mechanism (WRAM) & Conservation Rate Design issues ("Settlement") requesting the Commission approve a two-tier increasing block rate structure. This WRAM is a special form of water revenue adjustment mechanism and is different from the conventional decoupling WRAMs, such as the "Monterey WRAM" which the Commission has mandated for SWS in D.06-08-17. The settlement agreement also contains conservation provisions for the purpose of financial incentives and Low Income Ratepayer Assistance Program issues. On February 28, 2008, the Commission adopted the SWS/DRA Settlement Aggrement in D.08-02-036. DRA expects SWS to comply with the terms and conditions of the settlement in implementing the two-tier block rate structure, and required balancing accounts once the Commission adopts a final revenue requirement in this proceeding.

DRA recommends the new rates for Test Year 2009 to be effective January 1, 2009 due to the timing of this application, which was filed on January 2, 2008. The final rate adopted by the Commission for this application will supersede the Fiscal 2008-2009 attrition rates that D.06-08-017 authorized, which went into effect July 1, 2008.

CHAPTER 9: AUDIT ISSUES

A. INTRODUCTION

This Chapter provides DRA's findings related to reimbursements from SWS' Cooperating Respondents ("CR") and the qualified Domestic Production Activities Deduction ("DPAD"). DRA also provides its recommendations as a result of its audit on these two issues.

B. SUMMARY OF RECOMMENDATIONS

DRA's audit results demonstrate Suburban accurately reflected the CR reimbursement payments in its GRC workpapers. DRA also agrees with the forecasted CR reimbursement in the Test Years of this GRC. For DPAD, DRA finds that SWS has failed to comply with Commission's prior GRC decision and recommends SWS refund $952,907 as an one-time service surcredit on the water bills. DRA also recommends SWS refund its ratepayers the imputed DPAD for calendar year 2008 as monthly service credits.

C. DISCUSSION

1) CR Reimbursement

In Suburban's Application, Exhibit A, Chapter 3, Section 3.3, SWS states, in part, that "…since August 2001 the entities identified as the potentially responsible parties ("Cooperating Respondents") have been making monthly payments to the Company, payments representing the amount by which purchased replacement water exceeds the company's avoided costs… The CRs have also contributed the cost of three new wells, 121W-1, 142W-2 and 151W-2, which are expected to be online by year end 2007, and that are to be used to temporarily supplement water supply capacity that was lost from the shutdown of Plant 139 and 140. In this application the Company has assumed that those monthly payments from the CRs will continue throughout the test years…. It is anticipated

that total well capacity will be about 20,600 gpm around the end of calendar year 2007. This capacity would be similar to pre-1998 conditions…."[7]

In its responses to DRA's written data requests, SWS states that "The estimated CR reimbursements have been substantially reduced is that we expect SA-1 to finally be running full time, also a new CR funded well has just been complete and put on line. The new well is capable of producing 3,500 gpm. The increased production from those two sources will allow us to produce water from some of our previously shut-off wells because that water can now be blended with the new sources. When this is taken together, we anticipate reaching the 19,000 gpm limit…."[8]

By reviewing Suburban's documents and discussions with SWS staff, Suburban assured DRA that its capacity in the affected areas has reached the 19,000 gpm limit as of March 28, 2008. However, SWS stated that its actual production capacity has not been maximized recently due to slow demand. See Table 9-1 for summary of water production capacity pertaining to CR reimbursement. This table shows that the total capacity in the affected areas is approximately 18,900 gpm. Our discussions with SWS disclosed that SWS has the ability to increase the capacity by an additional 500 gpm as needed.

During the discussions with DRA in the GRC review, SWS stated that Suburban booked incremental expenses incurred as a result of loss production capacity in the affected areas in a balancing account as expenses and the corresponding CR reimbursements received were booked as contra accounts to those expenses. Therefore, the ratepayers benefited from the CR reimbursements by not needing to pay for the incremental expenses incurred as a result of the loss production capacity in the affected areas.

[7] Suburban's Application, Exhibit A, Chapter 3, Pages 3-4 through 3-7.

[8] Suburban's response, dated March 11, 2008, to DRA's data request.

DRA verified the actual CR reimbursements received by SWS from January 2002 through March 2008. A summary of those CR reimbursements is presented in Table 9-2 of this report. Suburban's estimates of future CR reimbursements for the years 2008 through 2010 are presented in Table 9-3. Since SWS has reached the pre-1988 production capacity in the affected areas, SWS expects the CR reimbursements to be substantially reduced in the future. DRA recommends SWS to continue recording any future CR reimbursements as reductions to the related expenses.

Table 9-1

Suburban Water Systems
Summary of Water Production Capacity Pertaining to CR Reimbursement

Well No. / System No.	Date Began / Resumed Production	Current Status (As of 03/28/08)	Flow Capacity (gpm)
121W-1	Jan 03	Active	2,400
139W-4	July 07	Active	1,500
140W-5	Jan 04	Active	3,000
142W-2	Jan 04	Active	3,000
151W-2	Jan 08	Active	3,500
VCWD Treatment Facility	July 07	Active	5,500
Total			18,900

Notes:
(1) VCWD = Valley County Water District.

(2) Suburban received free water from the VCWD Treatment facility. However, the amount of water received by Suburban will be deducted from Suburban's total water rights.

(3) Suburban staff stated that the company has the ability to increase the total production capacity by an additional 500 gpm as situations warranted.

Table 9-2

Suburban Water Systems
Summary of Actual CR Reimbursements

Year	Actual CR Reimbursments				
	Replacement Water Costs	Capital Costs	Plant 140/ Operating Costs	Past Costs	Total
2002	$4,226,846	$2,927,667	$26,609	$1,965,545	$9,146,666
2003	4,134,966	2,817,100	5,810	482,539	7,440,415
2004	3,263,822	710,139	8,844	465,900	4,448,704
2005	3,202,589	408,493	6,625	449,261	4,066,967
2006	3,098,127	1,552,387	160,854	432,621	5,243,989
2007	3,127,613	812,565	241,712	0	4,181,890
2008*	266,655	444,486	45,215	0	756,356

** Represent actual CR reimbursements for January through March 2008 only.*

Table 9-3

Suburban Water Systems
Summary of Estimated Future CR Reimbursements

Year	Future CR Reimbursments Estimated by SWS				
	Replacement Water Costs	Capital Costs	Plant 140/ Operating Costs	Past Costs	Total
2008	$27,819	$0	$0	$0	$27,819
2009	28,375	0	0	0	28,375
2010	28,942	0	0	0	28,942

2) Domestic Production Activities Deduction ("DPAD")

Background:

Section 199 ("Section 199") of the Internal Revenue Code ("Code") was added to the Code by section 102 of the American Jobs Creation Act of 2004 (Public Law 108-357, 118 Stat. 1418), and amended by section 403(a) of the Gulf Opportunity Zone Act of 2005 (Public Law 109-135, 119 Stat. 25) and section 514 of the Tax Increase Prevention and Reconciliation Act of 2005 (Public Law 109-222, 120 Stat. 345) ("TIPRA"). On June 1, 2006, the IRS and the Treasury Department published the final regulations under section 199.

Section 199 allows a deduction equal to 9 percent (3 percent in the case of taxable years beginning in 2005 or 2006, and 6 percent in the case of taxable years beginning in 2007, 2008, or 2009) of the lesser of (A) the qualified production activities income ("QPAI") of the taxpayer for the taxable year, or (B) taxable income (determined without regard to section 199) for the taxable year.

Under Section 199(c)(1), QPAI is the excess of domestic production gross receipts ("DPGR") over the sum of: (a) the cost of goods sold ("CGS") allocable to such receipts; (b) other deductions, expenses, or losses directly allocable to such receipts; and (c) a ratable portion of deductions, expenses, and losses not directly allocable to such receipts or another class of income.

Section 199(c)(4)(A) defines DPGR to mean the taxpayer's gross receipts that are derived from: (a) any lease, rental, license, sale, exchange, or other disposition of (i) qualifying production property ("QPP") that was manufactured, produced, grown, or extracted ("MPGE") by the taxpayer in whole or in significant part within the United States; (ii) any qualified film produced by the taxpayer; or (iii) electricity, natural gas, or **potable water** produced by the taxpayer in the United States[9]; (b) construction performed in the United States; or

[9] Emphasis added.

(c) engineering or architectural services performed in the United States for construction projects in the United States.

Internal Revenue Bulletin, Notice 2005-14, Section 4.04(10)(c) provides that production activities with respect to potable water include the acquisition, collection, and storage of raw water (untreated water), transportation of raw water to a water treatment facility, and treatment of raw water at such a facility. Thus, gross receipts derived from any of these activities performed in the United States are included in DPGR. DPGR does not include, however, gross receipts derived from the storage of potable water after completion of treatment of the potable water, or delivery of potable water to customers. The IRS and Treasury Department believe that Congress intended for the provision relating to potable water to apply to water utilities, not to taxpayers engaged in the trade or business of producing bottled water.

SWS' Position:

In its Application, Exhibit A, Chapter 9, Section 9.4, SWS states that "The decision in SWS' last General Rate Case required SWS to record any future tax benefits associated with the American Jobs Creation Act in a memorandum account, the balance of which would be refunded to ratepayers when the Commission decides the actual tax benefits, if any, realized by SWS under the Act. Neither SWS nor Southwest have realized any benefits under the Act, and therefore the Commission should not require any refunds."

In its responses to DRA written data request EM-1, SWS stated, in part, that "SWS did not realize any tax benefits from associated with the Job Creation Act for its last General Rate Case because the company had net operating losses for 2005 and 2006. The tax benefits provided by the Jobs Creation Act are the impact of the Domestic Production Activities Deduction. If a company has a net operating loss, it is not permitted to take a deduction for Domestic Production Activities…. The company does not expect to take a deduction for Domestic Production Activities for the next several years because there is a substantial net

operating loss carry forward from 2006 ($6,048,203). Also, we are incurring substantial capital expenditures over the two years that will be expensed for tax purposes in the years incurred or depreciated in the next five years. The rate of depreciation will be significantly higher than book depreciation which is expected to contribute to taxable losses for the next few years…."

In its responses to DRA written data request RYY-3, SWS confirmed that "the company" in the preceding paragraph means its parent company, Southwest Water Company. That is, SWS did not determine the DPAD because it filed consolidated Federal income tax returns with its parent company, which had net losses in 2005 and 2006.

DRA requested, through written data request RYY-3, that SWS complete the IRS Form 8903 for the calendar years 2005 through 2007 as a stand-alone company. The IRS Form 8903 is used by companies to determine the DPAD for Federal income tax purposes. SWS objected to complying with DRA's requests. The Administrative Law Judge subsequently ruled on April 15, 2008 against DRA's motion to compel on this issue.

Prior Commission Decision:

In D.84-05-036 (May 2, 1984) 15 CPUC2d 42, 61, based on an OII in 1984, the Commission decided whether, for purposes of computing estimated income tax expenses in rates, the impact of nonutility and affiliated entities' operations as reflected in consolidated income tax returns shall be considered.[10] The Commission noted that it is the practice of the Commission, in calculating the test-year income tax expense, to assume a separate return basis considering solely utility operations.

The industry strongly supported the continued use of the separate return method. These parties unanimously agreed that the separate return method fairly and reasonably determined an utility's tax expense for ratemaking purposes. The

industry position was that a consolidated income tax return is essentially the combination of separate company tax returns. The tax liability for utility operations is the same whether a consolidated return or separate returns are filed.

The industry stated that the use of a consolidated effective tax rate, whenever it is less than the statutory tax rate, would result in arbitrary and capricious utility rates, as amounts charged ratepayers would depend upon the results of operations of a utility's nonutility affiliates. The Commission concluded that it would continue using the "stand-alone" method which considers only utility operations in determining income tax expenses.[11]

DRA's Position:

The Commission has directed SWS to establish a memorandum account to account for the actual benefits from the available DPAD in the last GRC's decision. SWS has not established the memorandum account, nor has it made any refunds to the ratepayers, because it contends that SWS files consolidated tax returns with its parent company, which had losses in 2005 and 2006 and thus did not take advantage of the DPAD.

As noted in the preceding section, the Commission has consistently adopted the "stand-alone" method in dealing with income tax issues. Therefore, an utility's operations are considered separately from its nonutility affiliates. The utility industry also supported this approach. Additionally, if the Commission prohibits the use of lower effective consolidated income tax rates of the parent company in its utility subsidiary's ratemaking processes, the opposite should also be true that the available tax deductions of the utility subsidiary should have been imputed and included for ratemaking purposes without regard to the net losses on the consolidated tax returns.

(continued from previous page)

[10] D.84-05-036, 15 CPUC2d, page 49.

[11] D.84-05-036, 15 CPUC2d, pages 49 to 51.

The imputation of the available DPAD would properly match the income tax deductions with the income tax expenses. Moreover, as agreed by the utility industry, an utility company's operations should not be dependent upon the results of its nonutility affiliates' operations. Finally, because the ratepayers pay for water utility company's expenses via water bills and the DPAD is a result of SWS' operations relating to pumping water from wells, the benefits of this tax deduction should have been returned to the ratepayers via refunds as directed by the Commission. Therefore, the Commission should consider and evaluate the income, deductions and credits, income tax rates, and income taxes for an utility company separately from its nonutility affiliates for ratemaking purposes.

The Federal DPAD is designed to benefit taxpayers who have qualified domestic production activities such as producing potable water by extracting ground water from wells. SWS as a stand-alone water utility company qualifies in taking advantage of this available DPAD because it meets the requirements specified under Section 199 of the IRS Codes.

DRA contends that SWS filing consolidated returns with its parent company is merely a choice SWS made with its parent company for income tax purposes. Since the Commission has adopted the "stand-alone" method in dealing with income taxes issues, it is irrelevant for ratemaking purposes that SWS' consolidated tax returns did not show any DPAD because of the total net losses in those years.

Based on DRA's review of SWS' internal Federal income tax computation as a stand-alone company, SWS has net operating income of $9,694,599, $11,292,590, and $11,522,127 for the calendar years 2005, 2006, and 2007, respectively. SWS' filing for this GRC and its CPA Audited Financial Statements also show that SWS had net operating income for accounting purposes.

DRA repeatedly requested certain information pertaining to the imputation of DPAD, but SWS selectively objected to the submission of this information. Since SWS has not computed the DPAD for the calendar year 2005 through 2007,

nor has it estimated the DPAD for the calendar years 2008 through 2010, DRA imputed the DPAD for those years based on the limited available information. (See DRA's exhibits for detailed imputation of DPAD for the calendar years 2005 through 2010). The following is a summary of DRA's recommended imputed DPAD for those years.

Calendar Year	Imputed DPAD
2005	$241,395
2006	$265,927
2007	$445,585
2008	$189,082
2009	$127,127
2010	$116,742
Total	$1,385,858

Consistent with the Commission's order in last GRC, DRA recommends SWS aggregate the imputed DPAD for the calendar years 2005 through 2007 and refund its ratepayers a total of $952,907 as an one-time service surcredit on the water bills. DRA also recommends SWS refund its ratepayers the imputed DPAD for calendar year 2008 as noted in the chart above as monthly service credits.

CHAPTER 10: POLICY ISSUES

A. INTRODUCTION

This Chapter provides DRA's recommendations regarding SWS' customer complaints and water quality.

B. SUMMARY OF RECOMMENDATIONS

DRA's review of SWS' records show that there were few customer complaints against the Company over the period from 2005 to 2007. When Suburban received complaints, it has promptly investigated the issues and resolved them. The water quality records SWS provided show that the Company has been meeting the California Department of Public Health ("CDPH") rules and regulations. Thus, DRA concludes that SWS has been providing safe and reliable water since the last GRC.

C. DISCUSSION

1) Customer Complaint

DRA, through the Commission Consumer Affairs Division, has received 84 informal complaints involving rates, billing, installation, service for the period January 1, 2005 through December 31, 2007. The resolutions of each of these informal complaints are:

20 were resolved in favor of the utility;

4 were resolved in favor of the customer;

60 were classified as others

In addition, SWS provided DRA with a summary of its customer service complaints, which identified the following complaints received for years 2005, 2006, and 2007:

Customer Complaints

TYPE	2005	2006	2007
Disputed Bill	3	4	3
Usage Concern	1	0	0
Meter Reading	0	1	0
Direct Payment	0	0	3

Each of the complaints indicated in the above table was informal in nature. SWS was able to resolve most of these complaints within one to four weeks with the exception of one "meter reading" and one "disputed billing" being five weeks and eight weeks, respectively. Overall, DRA believes SWS has been providing quality water with a high degree of safety and reliability.

2) Water Quality

SWS provides water to consumers in the San Jose Hills and Whittier/La Mirada areas. SWS' supply comes from groundwater in the Main San Gabriel Basin and Central Basin and surface water purchased from mainly MWD and California Domestic Water Company (Cal Domestic). The groundwater in this area is impacted with man-made chemicals, such as volatile organic compounds (VOCs) and emerging contaminants. Concentrations of VOCs above the maximum contaminant levels (MCLs) were first discovered in the Basin in 1979. Since that time, the US EPA, the State, and local agencies have made considerable progress in identifying the major sources of contamination, characterizing the contamination in the Basins, and implementing treatment plans to remediate the groundwater for potable use.

SWS operates five water systems within the San Jose Hills and Whittier/La Mirada service areas, with permits from the CDPH. CDPH is the primary agency

responsible for ensuring that water provided to the public is safe for consumption. CDPH has issued five Domestic Water Supply Permits and several amendments to SWS, with the latest amendment dated February 25, 2008. SWS is required to comply with the California Safe Drinking Water Act and all provisions set forth in the permits and its amendments.

The CDPH requires that SWS perform a Source Water Assessment, to identify potential sources of contamination near its production wells. SWS' December 2002 report indicated that its wells are vulnerable to many activities in the environment, primarily gas stations, leaking underground tanks, machine shops, pesticides/fertilizer/petroleum storage and transfer areas, and agricultural drainage.

Currently, SWS is required to test its water for environmental contaminants which include microbial, inorganics such as salts and metals, pesticides and herbicides, organic chemicals, radioactive, nitrates, and radon. In addition, SWS is required to monitor for disinfection by products, general physical parameters, and free chlorine. Several contaminants have been detected above the MCLs or action levels. SWS blends the impacted water with water that does not contain the same contaminants to reduce the levels of contamination to below the MCLs, prior to distributing the water to its customers.

In addition to disinfection, SWS provides color reduction treatment and blending to its water prior to distribution. In the La Mirada System, SWS treats the water from Wells 409-W3 and 410-W1, to reduce the color and to control corrosion and iron and manganese levels in the water. In the Whittier System, the water from the Bartolo Well Field are blended together in order to reduce the levels of N-nitrosodimethylamine ("NDMA"), 1,4-dioxane, tetrachloroethylene, and tricholorothelene, prior to distribution to SWS' customers. In the San Jose Hills System, SWS has detected perchlorate at levels above the notification level and blends its water prior to distribution to its customers.

It is important to note that although SWS obtains its water from one of the most contaminated basins in the state, SWS does not operate any treatment plants. In lieu of remediating the impacted water from the basins, SWS opted to either purchase treated water from purveyors such as MWD, Cal Domestic, and California Irrigation Company or blend the contaminated water with clean water. DRA staff reviewed the 2006 Annual Water Quality Report and the most recent CDPH's Inspection Reports available for SWS. In its testimony, SWS indicates that the Company is in compliance with all monitoring and sampling requirements established by the CDPH. DRA staff reviewed the information and found no records of violations or non-compliance from CDPH. CDPH staff confirmed that SWS has not had any violations since its last rate case. In its inspection reports, CDPH staff concluded that "the Company provides safe, wholesome, and potable water to its customers at all times".

CHAPTER 11: ESCALATION YEARS

The Table 11-1 below shows the Summaries of Earnings for Escalation Years 1 and 2. To obtain the increases in these years, D.04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in the table are for illustration purposes and the actual increases would be authorized only after approval of the utility's escalation year advice letters for 2010 and 2011.

TABLE 11-1

SUBURBAN WATER SYSTEMS

SUMMARY OF EARNINGS (Escalation Years)
@ proposed

Item	DRA 2010 (A)	DRA 2011 (C)
	(Dollars in Thousands)	
Operating Revenues		
Total Revenue	50,830.0	52,200.0
Expenses		
Operation & Maintenance	19,558.9	19,612.0
Payroll Expenses	6,164.6	6,269.4
Admininistrative and General	7,492.3	7,881.6
Depreciation Expense	5,123.5	5,271.3
Taxes Other Than Income	1,414.2	1,460.3
CCFT	747.8	844.7
FIT	2,731.9	3,034.7
Total Expenses	43,233.2	44,374.0
Net Income	7,596.8	7,826.0
Ratebase	87,873.4	90,484.2
Rate of Return	8.65%	8.65%

APPENDIX A

State of California — Public Utilities Commission
San Francisco

M E M O R A N D U M

Date : August 31, 2007

To : Division of Ratepayer Advocates and Water Division

From : M. G. Lyons, Program Supervisor
DRA Energy Cost of Service Branch

File No.: S-2559

Subject: Division of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2007 through 2011 from the August 2007 Global Insight U.S. Economic Outlook

The purpose of the monthly Escalation Memorandum is to inform division management of the trends in the general price level of utility non-labor expenses and wage contracts. Data are provided for 12 years, which include seven historic years, the estimated current year, and four forecasted years.

The following table summarizes the major changes in forecasted labor and non-labor inflation for years 2007 through 2011. Data for 2006 are provided as benchmarks. The factors for July 2007 are presented for comparison. Near-term, lagged CPI is expected to run over 3% due to petroleum price increases and fall to the 2% range by 2008. Non-labor inflation for 2007-11 is effectively checked by continued structural changes in the economy such as globalization and improved operating efficiencies. Global Insight's forecast of rising non-labor rates for 2006 is the result of temporary price increases in petroleum, chemicals/allied products, metals/metal products, and machinery. Labor escalation continues to be constrained by changes in the labor market due to corporate structural change, outsourcing, and high labor productivity.

2001 FORECASTED INFLATION

	Labor		Non-labor	
	07/07	08/07	07/07	08/07
2006	3.4%	3.4%	5.5%	5.5%
2007	3.2%	3.2%	2.9%	3.1%
2008	2.5%	2.6%	2.0%	2.3%
2009	1.8%	2.0%	1.2%	1.5%

2010	1.9%	1.9%	0.7%	0.9%
2011	1.8%	1.7%	0.7%	0.6%
Compounded	15.4%	15.7%	13.6%	14.6%

A more extensive explanation of the derivation and use of the above factors and a complete presentation of the escalation factors from 2000 through 2011 are provided in the attached appendix.

APPENDIX: EXPLANATION OF ESCALATION RATES

The recommended NON-LABOR ESCALATION RATES for 2007 through 2011 are presented in Table A. The values for 2000 through 2006 are provided for comparison.

TABLE A

Year	Non-Labor Inflation Rate*
2000	3.5%
2002	0.0%
2003	0.0%
2004	2.5%
2005	5.8%
2006	5.5%
2007	5.5%
2008	3.1%
2009	2.3%
2010	1.5%
2011	0.9%
2012	0.6%

* Revised 07/17/97 based on 1995 re-weighted purchases. [Source: BLS, Supplement to Producer Price Indexes, 1995, Table 12]

These escalation rates represent the calendar year average, or alternatively stated, the 12-month-ended spot rate at mid-year. These price factors have not been adjusted for real growth of expensed materials and services. The escalation factors are generated from a

composite index of 10 Wholesale Price Indexes (WPI) for materials and supplies expenses and the CPI-U weighted 5% for services and consumer-related items. **These non-labor rates are not applicable to plant, contracted services, loans, insurance, rents, and pensions and other utility employee benefits. Escalation of these expenses is addressed on pages 10-15 of D.04-06-018/R.03-09-005 (Water Rate Case Plan).**

The WAGE ESCALATION RATES in Table B are based on recorded utility labor settlements for 2000 through 2006 and Global Insight projections of the U.S. CPI for All Urban Consumers (CPI-U) for 2007 through 2011.

TABLE B

Year	Wage Increases 1/ 2/
2000	3.00%/3.50%/3.00%- PG&E/SCE/SoCal
2001	3.00%/3.50%/3.00%- PG&E/SCE/SoCal
2002	3.00%/3.50%/3.00%- PG&E/SCE/SoCal
2003	4.00%/3.25%/3.00%- PG&E/SCE/SoCal
2004	4.00%/3.50%/3.50%- PG&E/SCE/SoCal
2005	4.00%/3.50% /3.50%- PG&E/SCE/SoCal
2006	3.75%/3.75%/3.50%- PG&E/SCE/SoCal
2007	3.2% -CPI 3/
2008	2.6% -CPI 3/
2009	2.0% -CPI 3/
2010	1.9% -CPI 3/
2011	1.7% -CPI 3/

1/ Wage increases are not adjusted for changes in hours worked or the number of employees. The labor requirement is a separate issue related to the calculation of total payroll.

2/ If the proposed increase is reasonable, witnesses should use the particular utility's actual settlement on the date it becomes effective. The above recorded wage increases are for benchmark purposes only.

3/ CPI-U lagged one year to be consistent with union contracts.

The generally accepted method in labor contracts is to peg a wage increase to the rate of increase in the CPI-U for the previous year. Consequently, these wage escalation rates are based on the previous year's CPI escalation. If the utility is using an index other than U.S. CPI-U, please contact me for directions. The witnesses should familiarize themselves with the actual wage contracts for 2000 through 2011 to ascertain the correct wage formulas, reasonableness, and the effective date of increase for the particular proceeding. The annualized wage increase should reflect the percentage changes in wages weighted by the number of months individual wage rates were in effect.

Other non-labor and labor indices may be used if a witness has more specific knowledge of any particular account. **Those individuals who plan to use their own inflation**

factors are expressly requested to contact me for approval and direction. These forecasts are updated monthly. Please call me if you have any questions relating to these projections.

cc: M. Pocta D. Sanchez F. Curry
M. Enderby R. Kahlon

State of California Public Utilities Commission
San Francisco

M E M O R A N D U M

Date : August 31, 2007

To : D. Sanchez, Program Manager, DRA; R. Kahlon, Director, Water Division

From : Martin G. Lyons, Program Supervisor, DRA Energy Cost of Service Branch

File No. : S-2559

Subject: DRA August 2007 Summary of Compensation Per Hour

The following data are provided to Commission water utilities staff to enable them to utilize DRA's composite non-labor escalation methodology. The numbers are to be used in conjunction with the non-labor factors provided in DRA's monthly escalation memorandum to bring historic dollars to base year dollars and to inflate recorded dollars to test year levels. More specifically, the annual change in Compensation per Hour is applicable to contracted services, while the non-labor factor is related to material and supply purchases. In accordance with a 1991 agreement between the CPUC Water Division and the California Water Association (CWA), the monthly non-labor rate is to be weighted by 60 percent and the Compensation per Hour Index weighted 40 percent. If you have any questions regarding the application of these factors, please contact me.

COMPENSATION PER HOUR

Annual Rate of Change
Non-farm Business Sector, Seasonally Adjusted

Year	Annual Change
1997	3.6%
1998	5.3%
1999	4.4%
2000	6.9%
2001	2.7%
2002	2.8%
2003	4.0%
2004	4.5%
2005	4.4%
2006	3.9%
2007	4.8%
2008	3.6%
2009	3.7%

	2010	4.0%
	2011	4.1%

Source: Global Insight August 2007 U.S. Economic Outlook

Appendix B

Qualifications of DRA Staff Members

Victor Chan, P.E.

- Senior Utilities Engineer
- Registered Professional Engineer in California
- Employed by the P.U.C. since 1996
- Employed in DRA Water Branch since 2003
- Sponsoring Sections:
    - Chapter 1 (Summary of Earnings)
    - Chapter 10 (Policy Issues, Section 1, Customer Complaint)
    - Chapter 11 (Escalation Years)

Patricia Esule

- Public Regulatory Analyst
- Employed by the P.U.C. since 1989
- Employed in ORA Water Branch since 2002
- Sponsoring Sections:
    - Chapter 4 (Plant in Service, Section 1, Routine Plant and Direct Purchases)
    - Chapter 4 (Plant in Service, Section 2, Major Plant Improvements-San Jose Hills/Glendora District)
    - Chapter 5 (Depreciation and Amortization Expenses)
    - Chapter 6 (Ratebase)

Jenny M. Au, P.E.

- Utilities Engineer
- Registered Professional Engineer in California

- Employed by PUC's DRA Water Branch since 2007
- Employed by the Regional Water Quality Control Board between 1993 through 2006
- Sponsoring Sections:
    - Chapter 4 (Plant in Service, Section 3, Major Plant Improvement-Whittier/La Mirada District)
    - Chapter 10 (Policy Issues, Section 2, Water Quality)

Raymond Yin

- Public Utility Financial Examiner
- Certified Public Accountant
- Employed by the P.U.C. since 2008
- Employed by Department of Health Care Services from 1993 to 2007
- Sponsoring Sections:
    - Chapter 9 (Audit Issues)

Eric Matsuoka

- Public Utilities Regulatory Analyst
- Employed by the P.U.C. since 1974
- Employed in DRA Water Branch since 1998
- Sponsoring Sections:
    - Chapter 3- (Expenses)
    - Chapter 7- (Taxes)

Brian Yu

- Utilities Engineer
- Registered Professional Engineer in California

- Employed by the P.U.C. since 2001
- Employed in DRA/Water Branch since 2008
- Sponsoring Sections:
    - Chapter 4 (Plant in Service, Section 4, Plant Additions not Previously Authorized)
    - Chapter 6 (Ratebase, Section 2, Construction Work in Progress)

Victor Moon

- Utilities Engineer
- Registered Professional Engineer in California
- Employed by the P.U.C. since 1977
- Employed in DRA/Water Branch since 1984
- Sponsoring Sections:
    - Chapter 2 (Customer, Consumption, operating Revenue)
    - Chapter 8 (Rate design)